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Before the Committee on Appropriations

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Fraud, Abuse, Waste, and Error in Government

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96*th* CONGRESS, SECOND SESSION

SPECIAL HEARING
General Accounting Office
Office of Management and Budget

FRAUD, ABUSE, WASTE, AND ERROR IN GOVERNMENT

HEARING

BEFORE THE

COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE

NINETY-SIXTH CONGRESS

SECOND SESSION

Printed for the use of the Committee on Appropriations

Special Hearing

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FRAUD, ABUSE, WASTE, AND ERROR IN GOVERNMENT

WEDNESDAY, FEBRUARY 27, 1980

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The committee met at 10:40 a.m., in room 1318, Everett McKinley Dirksen Senate Office Building, Hon. Warren G. Magnuson (chairman) presiding.

Present: Senators Magnuson, Burdick, Sasser, and Young.

GENERAL ACCOUNTING OFFICE

STATEMENT OF ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES

ACCOMPANIED BY:

D. L. SCANTLEBURY, DIRECTOR, FINANCIAL AND GENERAL MANAGEMENT STUDIES DIVISION
GEORGE L. EGAN, ASSOCIATE DIRECTOR, FINANCIAL AND GENERAL MANAGEMENT STUDIES DIVISION
RALPH G. RUNNING, SUPERVISORY MANAGEMENT ANALYST, FINANCIAL AND GENERAL MANAGEMENT STUDIES DIVISION

FRAUD AND UNRESOLVED AUDIT FINDINGS

Senator MAGNUSON. The committee will come to order. We are waiting for a couple, three more Senators. We have a long list today, so we will proceed.

The chairman has a short statement he would like to make.

Today, the committee will receive testimony on the problems of fraud, abuse, waste, and error in Federal programs. These problems are of utmost concern to the committee because we have the responsibility for passing judgment on the spending requests of the Federal agencies. If any portion of these funds is stolen, squandered, or otherwise lost, we want to know why and what is being done about it, if anything.

A little over 1 year ago, in the wake of disclosures of widespread scandals in General Services Administration, Small Business Administration, Comprehensive Employment and Training Act and other programs, the General Accounting Office issued a report which found that Federal economic assistance programs were susceptible to fraud and cited a Justice Department estimate of such fraud as 1 to 10 percent of expenditures—or $2.5 to $25 billion. The report also concluded that

Federal agencies were not doing enough to identify, combat and prevent fraud in their programs. A month later, GAO issued another report which found that Federal agencies had a backlog of over $4.3 billion in unresolved audit findings and concluded that this could be costing the Government hundreds of millions of dollars annually.

INITIATIVES TO ELIMINATE FRAUD, ABUSE, WASTE, AND ERROR

As a result, attention was focused on these problems, and a number of new initiatives were taken: Congress enacted an Inspector General Act, which GAO recommended. GAO created a task force on fraud and, at the urging of the Appropriations Committee, established a toll-free nationwide hotline so that citizens could easily report suspected cases of wrongdoing in Government. The President directed the heads of all Executive departments and agencies to develop comprehensive plans for the elimination of fraud and waste in their programs, and the Office of Management and Budget advised major departments and agencies to establish whistleblower hotlines.

However, the problems of fraud, waste, abuse, and error seem to have been submerged by other domestic and international problems during the past year, and, as a result, we know very little about the results of these efforts to date. The purpose of today's hearing is to try to find out whether the Government is mounting an effective war on fraud, abuse, waste, and error, or just indulging in minor skirmishes, or, in fact, fighting a losing, rear-guard action.

Our witnesses today are the Comptroller General, Mr. Elmer Staats, and Dr. John White, Deputy Director of OMB. They are particularly well qualified to testify on this subject because their agencies have been in the forefront of the Government-wide effort against such problems as fraud and waste. It is my hope that their testimony will provide basic information necessary for the various Appropriations subcommittees to zero in on these problems as they relate to particular agencies and programs within their jurisdictions as they consider their appropriations for the next year.

We are all interested in balancing the budget, but we must do it in a responsible way. We must be able to identify those agencies and programs which are prone—are prone, I underscore that—to fraud, abuse, waste, and error and take appropriate action to straighten them out.

Milt, do you have a statement?

PUBLIC CONCERN

Senator YOUNG. No, I have no statement, except I wish to say that I know of nothing the public is more concerned about than excessive Federal expenditures as one of the major causes of inflation. I commend the chairman for doing everything he can here to find out where there is waste and fraud and expenditures that aren't necessary. The former Secretary of HEW estimated there was some $6 billion in expenditures caused by just waste, fraud and things such as that. Of course, it is of deep concern to this committee. It is our major responsibility to curtail expenditures. We welcome your statement, Mr. Staats.

IMPORTANCE OF HEARINGS

Senator MAGNUSON. Senator Sasser.

Senator SASSER. Mr. Chairman, I want to commend you today for calling these hearings. I think it is important that we do everything we can to eliminate waste, fraud, abuse, and error from Government. The taxpayers are demanding that. We can do no less than heed their call.

Mr. Chairman, I know that this has been a concern of yours for some time. I want to express my thanks to you for calling these hearings and focusing attention on this very important problem. I look forward to hearing from the witnesses this morning.

Senator MAGNUSON. All right, Mr. Staats, we will be glad to hear from you.

SAVINGS RESULTING FROM REPORTS AND SPECIAL STUDIES

Mr. STAATS. Thank you very much, Mr. Chairman.

Senator MAGNUSON. You have a statement. Do you want to place your statement in the record and then highlight it, or do you have some charts?

Mr. STAATS. I was going to suggest to the committee that following the presentation we do have about five charts which I think will be very helpful to you. We can have our staff present those charts following the reading of my statement.

Senator MAGNUSON. Alright.

Mr. STAATS. Thank you.

As you know, fraud prevention and detection represents only one of the many issues covered in the 983 reports and special studies issued by our office in fiscal year 1979. These reports resulted in an estimated savings to the Government of $2.6 billion, and additional savings from management improvements in operations and effectiveness of Government programs and activities that cannot be measured accurately.

I might say at this point, Mr. Chairman, in the last 3 years, the recommendations made by GAO and accepted by the agencies have totaled about $11 billion, which is roughly 20 times our total budget.

FRAUD PREVENTION AND DETECTION

Our recent increased emphasis on fraud prevention and detection is one such area. This effort originated in 1976 with a special inquiry into the Government's ability to combat fraud. We specifically wanted to ascertain whether Federal agencies had instituted effective policies and procedures for combating fraud. The resulting report, that you have already referred to, issued in September 1978, was entitled, "Federal Agencies Can and Should Do More to Combat Fraud in Government Programs." In it we pointed out that while no one knows the magnitude of fraud and abuse against the Government, all indications are that it is a problem of critical proportions. It is hidden within legitimate undertakings, and usually goes unreported and undetected.

TASK FORCE FOR THE PREVENTION OF FRAUD

Shortly after our report was issued, I established a Task Force for the Prevention of Fraud to perform a threefold mission:

One, establish the scope of the overall problem of fraud and other illegal activities against the Federal Government, and highlight where the existing procedures for dealing with fraud are inadequate. This portion of the task force activities has been termed our "overview" assessment.

Two, operate a nationwide, toll-free hotline which can be used by citizens anywhere in the country to report instances of fraud in Federal programs.

Three, conduct "vulnerability assessments," as we entitled them, within a few selected agencies. This involves development of a risk profile of the susceptibility of agency programs to fraud and other illegal activities.

OVERVIEW ASSESSMENT

The first of these three efforts, our overview assessment, deals with known instances of fraud, its causes, and actions taken by management to prevent its recurrence. In this review, we are asking the question, "Why did fraud occur?" We are identifying the kinds of illegal activities that are occurring, and at what cost, and determining what means are available for prevention and detection. We want to know whether the fraud has occurred because agency control systems have failed. We also want to know what legal and administrative remedies were taken and, conversely, if none were taken, why they were not. We are working with a universe of more than 130,000 cases of fraud and other illegal activities alleged from October 1976 through March 1979 in 21 departments and agencies. We have taken a statistical sample of some 5,000 cases and are incorporating the information on these cases into a computerized data base. In addition, we have been tracking selected cases through the systems in each agency to develop information on the types of control problems occurring and the areas needing attention.

Based on information obtained by us to date, it is clear that a wide variety of Federal programs and activities are affected. Cases of fraud involve many areas, including: payroll, loan guarantees, theft of equipment, educational benefits programs, and so on.

NATIONWIDE HOTLINE

The second area undertaken by the task force is the operation of a nationwide hotline. During the course of a December 1978 hearing before the Legislative Branch Appropriations Subcommittee, Senator Sasser suggested the establishment of a hotline telephone. We announced the number in January 1979, and after the first 12 months of operation had received more than 14,000 calls and had written up over 7,500 allegations. Many of the calls that were more appropriately the concern of other Federal agencies or State or local officials were referred but not written up. We try not to be an ombudsman, but with this type of operation, it is not always possible to avoid this role.

Computer analysis of trends of the calls is currently in process and the followup on these hotline leads has begun. Additional calls are being received daily, and will be handled by the same process.

In our initial screening of the 7,500 cases, a geographic breakdown based on 5,160 allegations believed to be substantive shows that calls have been received from all 50 States, the District of Columbia and a few overseas locations. California had the highest rate of substantive allegations with 582, while Vermont and Wyoming had only four and three respectively. Washington, D.C., the second highest, had 350, followed by Virginia with 265, New York with 247, and Texas with 245. While we know that the incidence of calls is somewhat a function of population and media coverage, it is too soon to tell what, if anything, the geographical distribution of complaints can tell us.

Furthermore, almost all Government entities are affected. The Department of Health, Education, and Welfare is the highest with over 1,000 substantive allegations, including the Social Security Administration with 698 allegations. HEW is followed by the Department of Defense with 858. The next highest are the Department of Labor with 403 and the Department of Housing and Urban Development with 376.

SUMMARY OF HOTLINE ACTIVITIES

In 64 percent of the cases, the informant wanted to be anonymous. Only 28 percent of the informants were Federal employees. Federal Government employees' involvement is alleged in 37 percent of the cases. The majority of allegations, 63 percent, are against Federal contractors, grant recipients, and corporate or individual recipients of Federal financial assistance. Additional statistics regarding the hotline's activity for the past year are provided for the record in an attachment to my statement.

[The summary follows:]

FRAUD TASK FORCE
HOTLINE SUMMARY (1/15/80)

Volume of Calls and
Geographic Area - First 12 Months of Operation

We announced the hotline telephone number on January 18th and after the first 12 months of operation, (January 15), had written up over 7,500 allegations which require classification as to materiality, agency and program involved, and geographic location. In addition to the above, we have received numerous calls that were more appropriately the concern of other Federal agencies or State or local officials that were referred but not written up. Computer analysis of the first group of calls written up is complete and the follow-up process on these hotline leads has begun. Additional calls are being received daily, and will be handled by the same process.

Calls have been received from all 50 States, the District of Columbia and overseas locations.

A geographic breakdown based on the 5,160 allegations believed to be substantive in our initial screening of 7,567 cases is as follows:

Location of Reported Activities

350	Washington, D.C.	34	Minnesota
95	Alabama	64	Mississippi
18	Alaska	147	Missouri
54	Arizona	26	Montana
56	Arkansas	24	Nebraska
582	California	15	Nevada
97	Colorado	17	New Hampshire
30	Connecticut	95	New Jersey
8	Delaware	34	New Mexico

218	Florida	247	New York
190	Georgia	92	North Carolina
13	Hawaii	20	North Dakota
24	Idaho	232	Ohio
116	Illinois	72	Oklahoma
67	Indiana	45	Oregon
35	Iowa	229	Pennsylvania
35	Kansas	15	Rhode Island
94	Kentucky	32	South Carolina
82	Louisiana	25	South Dakota
20	Maine	209	Tennessee
148	Maryland	245	Texas
88	Massachusetts	22	Utah
175	Michigan	4	Vermont
265	Virginia		
155	Washington		
49	West Virginia		
44	Wisconsin		
3	Wyoming		
29	Overseas		
75	Missing Codes		

Affected Government Entity

Executive Branch

210	Department of Agriculture
64	Department of Commerce
133	Department of Defense (other than Air Force, Army, Navy)
175	Department of the Air Force
273	Department of the Army
277	Department of the Navy
55	Department of Energy

421	Department of Health, Education and Welfare (other than SSA, OE, NIE, FDA)
698	Social Security Administration (Welfare, SSI)
55	Office of Education
16	National Institutes of Health
376	Department of Housing and Urban Development
142	Department of the Interior
117	Department of Justice (other than FBI)
9	Federal Bureau of Investigation
403	Department of Labor
22	Department of State
125	Department of Transportation
64	Department of the Treasury (other than IRS)
470	Internal Revenue Service
9	ACTION
1	Civil Aeronautics Board
55	Community Services Administration
5	CONRAIL
1	Consumer Product Safety Commission
77	Environmental Protection Agency
17	Equal Employment Opportunity Commission
1	Export-Import Bank of the United States
6	Farm Credit Administration
12	Federal Communications Commission
3	Federal Deposit Insurance Corporation
1	Federal Election Commission
2	Federal Home Loan Bank Board
13	Federal Trade Commission
162	General Services Administration
3	Interstate Commerce Commission
26	National Aeronautics and Space Administration
3	National Science Foundation

5	Securities and Exchange Commission
45	Small Business Administration
31	Tennessee Valley Authority
29	Office of Personnel Management
177	United States Postal Service
234	Veterans Administration
1	The President of the United States
2	The White House Office
1	Office of Management and Budget
1	National Security Council
3	Central Intelligence Agency

Legislative Branch

10	Congress
13	General Accounting Office
6	Government Printing Office
7	Library of Congress

Other

13	D.C. Government
61	Other Federal Agencies
19	Missing Agency Codes

Mix of Calls -- Substantive vs. Non-substantive

Approximately 40 percent of all calls received appear to have some substance and are written up for further evaluation. After additional screening approximately 68 percent of those written up appear to have some substance for investigation or audit. For example, of 7,567 allegations that have received an initial screening, 5,160 appear to have some substance for investigation or audit. Of the 5,160, about 32 percent are in the "mismanagement"

category, while the remaining 68 percent (3,486 allegations) appear to involve intentional wrongdoing.

Types of Allegations Received

Other than those of a non-substantive nature and those that did not appear to involve the expenditure of Federal funds, hotline allegations fell into one of two categories:

--instances of apparent mismanagement, and

--instances of intentional wrongdoing.

In summarizing the allegations of wrongdoing, we found it useful to categorize them according to the participants in the alleged improper activity. We established the following six activity participant categories:

1. Federal employees only
2. Federal employees in conjunction with others
3. Federal contractors or grantee organizations
4. Corporate recipients of Federal financial assistance
5. Individual recipients of Federal financial assistance
6. Other individuals or corporate entities.

Of the 3,486 allegations of wrongdoing, the highest proportion, 29 percent, was in the participant category "Federal employees only." The table below shows the number and proportion of total wrongdoing allegations falling in each of the six participant categories.

Participating Category	No. of Allegations	Percent of Total
1. Federal Employees only	1,021	29.3
2. Federal employees in conjunction with others	275	7.9
3. Federal contractors or grantee organizations	779	22.3
4. Corporate recipients of Federal financial assistance	17	.5
5. Individual recipients of Federal financial assistance	812	23.3
6. Other individuals or corporate entities	582	16.7
	3,486	100.0

Looking first at the "Federal employees only" category we found that there were 119 allegations of theft, 126 allegations of private use of Government property, 286 reports of employee working hour abuses 258 reports of improper financial transactions, and 232 reports of other improper activities.

In the second category, that of "Federal employees in conjunction with others" there were 155 allegations of a bribe or kickback having been paid, 7 allegations of extortion and 113 miscellaneous other allegations.

In the "Federal contractor/grantee" category there were 328 allegations of improper expenditure of Government grant funds, 67 allegations of contract non-performance, 75 reports of the theft of Government funds or property and 309 other allegations of various natures.

The 17 allegations that fell into the category "Corporate recipients of Federal financial assistance" generally involved the improper receipt of subsidy funds.

The fifth category, "Individual recipients of Government financial assistance" included 239 allegations of welfare cheating, 137 of cheating on social security benefit eligibility, 171 on collecting inappropriate disability benefits, 62 of cheating on veterans benefits, 43 instances of food stamp cheating, 44 of medicare/ medicaid cheating and 116 miscellaneous allegations.

The sixth and final category, "Other individuals or corporate entities" included 395 allegations of personal and corporate income tax cheating, and 187 other allegations of improper activity.

The allegations of wrongdoing that were received to date involve the funds of every one of the 12 cabinet departments of the Federal Government and involve activity in Washington, D.C., and all 50 States.

In 64 percent of the cases, the informant was anonymous. Twenty-eight percent of the informants were Federal employees.

REFERRALS MADE AS OF 1/15/80

HEW	844	DOT	96
DOL	325	DOE	38
HUD	269	Commerce	28
DOD	502	Justice	90
IRS	333	Treasury	40
VA	164	SBA	35
GSA	143	NASA	14
USDA	182	LEAA	17
Post Office	101	GAO	29
Interior	105	CSA	42
EPA	65	OMB	3
NRC	2	Merit System	3
FEMA	10	TVA	19
D.C. Government	4	Comptroller of the Currency	1

TOTAL REFERRALS 3,503

DESTRUCTION OF CONFIDENCE IN THE GOVERNMENT

Mr. STAATS. The allegations being reported cover a wide range of abuses—theft, private use of Government property, working-hour abuses, improper financial transactions, improper expenditure of grant funds, cheating on benefit eligibility, and payment of bribes or kickbacks. The amount of money involved in these allegations varies, but the dollars involved, as we see it, are less important than what all this does in terms of destroying people's confidence in the operations of Government.

PREVENTION OF FRAUD

I want to emphasize that GAO's interest is in the financial and management systems used to account for funds to determine whether the Government's fraud prevention efforts are adequate. We prefer to work with agency Inspectors General to get individual cases investigated. As of January 15, we had referred over 3,500 cases to the Inspectors General for investigation or audit.

We are monitoring the results of the Inspectors General work in order to develop profiles of fraudulent activity and agency actions to prevent it from occurring. This information will aid our evaluation of internal and management controls necessary to prevent fraud.

VULNERABILITY ASSESSMENTS

Our third effort, vulnerability assessments, is what we call our effort to estimate the susceptibility of agencies and their programs to fraud and abuse.

The concept of vulnerability assessments is an important one. Out of a concern that the Government be managed well and free from fraud, waste, and error, the President on December 31, 1978, sent a memorandum to the heads of Executive departments and agencies asking them to identify programs and activities deemed most vulnerable and to deliver to him by January 31, 1979 a planned approach for preventing and dealing with these problems. I say this was in direct response to the report we issued. Due in part to the short time they were permitted by the President, efforts to do this by agencies we audited were incomplete. The vulnerability assessments portions of the plans they submitted were not in the depth they need to be to really evaluate the internal controls over tasks and functions being performed.

In making our own vulnerability assessments, we evaluate the adequacy of internal controls over major administrative and program-related tasks to determine whether someone could or has abused or misused Federal assets. To protect Federal funds and other assets adequately, departments and agencies must have preventive controls over tasks being performed as well as after-the-fact controls, such as internal auditors who test the systems of internal control to provide assurance to top management that programs and funds are being administered and performed correctly.

Based on our work, we believe that all of the agencies visited are vulnerable to fraud and abuse. This is because Federal headquarters, regional offices, and other field locations and grantees have inadequate internal controls over their operations. As a result, there is insufficient assurance that Federal funds spent at these locations are spent for the purposes intended. In fact, during our testing of selected internal control systems, we found Federal funds and equipment that had been abused and misused at most locations visited.

LACK OF CONTROLS OVER TASKS

The problems that could occur or have occurred because of the lack of adequate internal controls over particular tasks that must be performed are serious. Some of the more significant ones we have noted at the Federal level and at the grantee level are: Excessive cash on hand, payroll fraud, and improper use of grant funds.

I would now like to discuss briefly two reports which are outside the fraud area but which directly impact on the effectiveness of Federal audit efforts and on the prudent management of appropriated funds.

RESOLVING AUDIT FINDINGS

The first report, issued in October 1978, addressed the issue of the Federal manager's responsibility to resolve audit findings. It disclosed that poor systems for resolving auditors' findings could be costing the Government hundreds of millions annually. Of a reported $4.3 billion

in unresolved audit findings, we estimate that 80 percent of this amount involves potential recoveries—including what grantees and contractors either spent for purposes not authorized by Federal laws and regulations or could not support as charges to the Government. The remaining 20 percent involves potential savings in operating costs. In addition, the review showed that resolution frequently drags out for years. Moreover, agency officials often resolved findings in the grantees' and contractors' favor without adequate explanation, even though the auditors' findings appeared to be valid.

Progress has been made to solve the problem. Office of Management and Budget has worked with agency representatives to correct the situation and revised its policy guidance along the lines of our recommendations. In November 1979, Office of Management and Budget revised its Circular A-73 to establish a 6-month time limit on audit resolution, procedures for resolving major disagreements between audit and program officials, semi-annual reports to agency heads, and periodic evaluations of audit followup systems. The Office also revised its Circular A-88 to provide for audit followup at educational institutions.

While we are unable to comment on the extent of improvement, information from OMB, the Inspector General Offices, and other Government organizations indicate the amount of unresolved findings has been reduced. A number of agencies informed us that they have implemented new systems for tracking and controlling auditors' findings.

Although progress has been made, there are indications that more has to be done before effective systems are fully implemented. OMB has stated that it is still pressing agencies for implementation of its new policy changes. Agency officials recently informed us that some improperly resolved audit cases discussed in our report remain unchanged. We inquired about the status of a sample of 13 cases involving approximately $16 million in questioned costs, and found that eight cases totaling over $15 million were not resolved or reevaluated. For example, we reported that an EPA administrator rejected an audit finding questioning $454,000 in Federal grants and contracts because the amount questioned was not broken down by individual projects. On January 30, 1980, an EPA official stated that the agency has not yet resolved the finding or analyzed the documentation the grantee submitted on the case.

We consider this area very important and are concerned about whether improvements have gone far enough. Accordingly, we have plans to review the Executive departments' progress in improving their audit resolution systems.

GRANT AUDITING

The second report, issued in June 1979, discussed problems involved in grant auditing. It disclosed that the existing audit approaches cost time and money. Unnecessary costs result from duplication of effort and from performing audits too often of grants which are too small to warrant more than an occasional audit. In addition, the audit focus is often too narrow to be effective in preventing unauthorized expen-

61-555 O - 80 - 2

ditures and the loss of public funds. In our report, we noted that the Government can lose millions of dollars through gaps in audit coverage.

An important point is that the current methods of auditing grants does not afford grants the full protection of audits. Our review of the audit experience of 73 grant recipients during fiscal years 1974 through 1977, disclosed that 80 percent of the recipients' $3.7 billion in Federal funds was not audited by or on behalf of the Federal agencies. Even when audits of Federal funds are performed the audit focus is too narrow to be effective. This is because auditors concentrate on individual grants rather than the total grant funds received by a recipient and cannot be sure whose funds or assets they are reviewing. Such narrow audits are unlikely to reveal whether funds have been improperly transferred between grants or programs.

The basic recommendation in our report is the need for a single audit of all grants that a single entity has, that is, for each grant recipient. Such an audit, among other things, would test the grantee's system for complying with Federal restrictions on the use of the funds and related matters, but a detailed audit of each grant would not be made. Any Federal auditor could review such an audit and rely on it if he felt the single audit had been properly performed.

AUDIT GUIDE

There has been improvement in this area. GAO in cooperation with the intergovernmental audit forum and various Federal agencies has taken the lead in developing an audit guide—called "Guidelines for Financial and Compliance Audits of Federally Assisted Programs"—for comprehensive financial and compliance audits of multifunded grant recipients. This is the document which incorporates it. It is signed by Mr. McIntyre, Director of OMB, and myself. State and local auditors as well as Federal auditors have participated in the development of this guide. OMB has revised its policy guidance—Circular A-102—to require the single audit and the use of this guide in performing such audits of State and local governments. Much remains to be done before the single audit concept is fully implemented, but we believe this concept, when implemented, will help to reduce fraud, abuse and error in Federal assistance programs.

[A copy of the "Guidelines for Financial and Compliance Audits of Federally Assisted Programs" was submitted and placed in the committee files.]

CHARTS ON ILLEGAL ACTIVITIES

This concludes my prepared statement, Mr. Chairman. We have several charts which we are prepared to present at this point. I think it will be very helpful to you to see these charts. Mr. Running will discuss the charts.

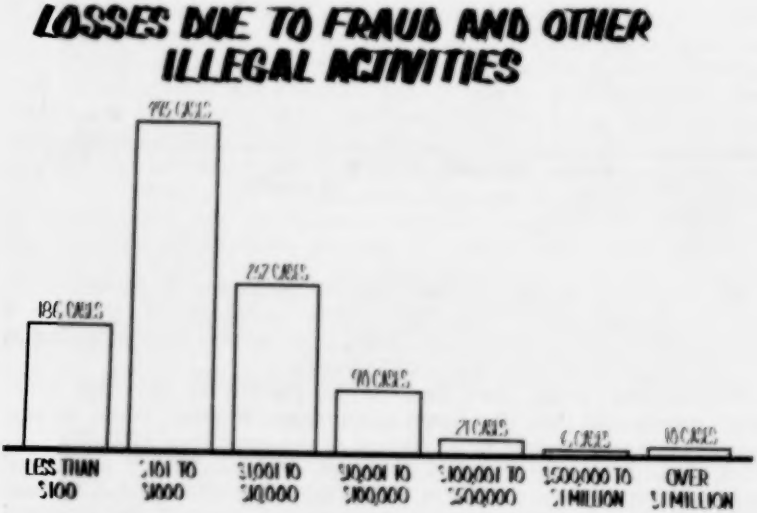
Senator MAGNUSON. Unless members of the committee have questions they want to ask now, you may proceed with the charts.

Mr. RUNNING. Before we begin our discussion, Mr. Chairman, I would like to provide a word of caution. The information on these charts is based on the 2,400 cases we have included in our data base to

date. Our total statistical sample is about 5,000 cases, which represents a universe of about 130,000 alleged and proven fraud cases. So what we have here is only a partial sample. Once we have completed our statistical analysis, these figures might well change.

The first chart shows the ranges of dollar losses for the alleged and proven fraud cases that we identified in our sample.

[The chart follows:]



Mr. RUNNING. As you can see, 186 cases involved amounts of less than $100; about 500 cases involved amounts from $100 to $1,000; about 250 cases involved amounts from $1,000 to $10,000; 90 cases involved amounts from $10,000 to $100,000; and 37 cases involved amounts over $100,000.

I think the fact that a majority of our cases are in the low-dollar amounts shows how difficult it is to cope with the problem because in many instances we are dealing with a lot of relatively small-dollar frauds.

Senator MAGNUSON. On that category involving cases over $1 million, what do you have?

Mr. RUNNING. Ten cases over $1 million.

Senator MAGNUSON. Ten. They would have involved contracts?

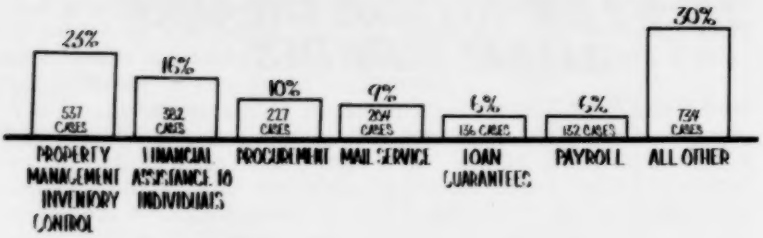
Mr. RUNNING. Yes. We found that many of our high-dollar fraud cases involved procurement. In fact, 46 percent of our fraud cases over $100,000 involved procurement fraud.

Senator MAGNUSON. OK.

Mr. RUNNING. The next chart shows the major areas where we have identified fraud.

[The chart follows:]

MAJOR AREAS WHERE FRAUD/ ILLEGAL ACTIVITIES HAVE BEEN IDENTIFIED



Mr. RUNNING. As you can see, property management, represents 23 percent of our cases. The next highest category—16 percent—is financial assistance to individuals. These cases involve such programs as welfare, veterans' benefits, and social security.

Procurement, which accounted for 46 percent of our high-dollar losses represented only 10 percent of our cases. In other words, 10 percent of our cases resulted in 46 percent of the losses over $100,000.

Mail service, postal service fraud cases, accounted for 9 percent of our cases. Loan guarantee frauds, frauds involving HEW, VA, SBA, and HUD, accounted for 6 percent. Payroll frauds accounted for another 6 percent. Thirty percent of our cases were spread over a wide range of functional areas. For example, travel fraud represented about 2½ percent.

I can give you a breakdown of some of the other areas. Personnel represented about 4 percent. Grants represented about 4 percent. Interestingly enough, training and education programs represented about 1 percent of our fraud cases, but accounted for 16 percent of the high-dollar losses.

PROPERTY MANAGEMENT

Let me give you a few examples of the types of cases we are dealing with in these areas. A good example of a property management case we evaluated is a case involving the Department of Transportation. Government equipment valued at over $3,300 was allegedly stolen from two Federal aviation facilities between February and July 1978. Agency investigators could not determine the exact method or dates the equipment was stolen. However, their investigation disclosed several problems relating to building security and physical control and accountability of inventories. Inventory control problems were not new to the

location. As early as March 1977, an agency official reported he could not determine the accuracy of the inventory because property records had not been properly maintained since 1975. FAA recommended several corrective actions to prevent future theft, but little was actually done to improve the control weaknesses at the facility. We found the weaknesses existing at the time of the theft had not been corrected.

FINANCIAL ASSISTANCE TO INDIVIDUALS

A good example of fraud involving financial assistance to individuals is the embezzlement of over $2 million over a 3-year period from the Department of Defense CHAMPUS program which provides medical care by nongovernment hospitals and doctors to eligible military personnel and their dependents. A civilian program administrator in Korea allegedly embezzled the funds by preparing and certifying 3,300 phony medical claims for inflated amounts and having the payment sent to post office boxes which he controlled. Once the checks were delivered, he cashed them, paid the hospitals what they were owed and pocketed the rest. The administrator was able to commit the alleged fraud because he was the only person adjudicating the claims. He also served as sole certifying and approving officer for all claims. Lack of internal controls was compounded by the fact there was weak management supervision over the administrator. A Federal grand jury indicted the administrator in 1979, but he and most of the money have disappeared.

PROCUREMENT FRAUD

A good example of procurement fraud is a case we looked at in GSA. A GSA building management specialist took advantage of inadequate controls to establish a fictitious company which received $300,000 in payments for services which were never performed. The payments were received for over 140 fraudulent invoices because of inadequate controls in the following areas: Contract numbers were easily accessible; accounting control transaction numbers were not protected from unauthorized use; purchase orders were not required to justify the obligation of funds; fund balances were not maintained to reconcile with the allotment records; and authorizing signatures were not verified. The individual has been successfully prosecuted and ordered to make full restitution.

MAIL SERVICE FRAUD

An example of a mail service fraud that we have come across—it is still an open case—involves the theft of several million dollars in registered mail. As a result of the theft and disappearance of certain valuables in the mail the Government has a potential liability of several million dollars.

LOAN GUARANTEE FRAUD

A loan guarantee fraud that came up in our sample involved a scheme by seven individuals to defraud the Government of $103,000 by illegally obtaining basic educational opportunity grants and guaranteed student loans. The individuals applied and were accepted at various

colleges, waited for loans and grants to be approved, cashed the checks at the college tuition office, paid a single installment on the tuition bill and kept the rest of the money. All seven were successfully prosecuted.

PAYROLL FRAUD

A good example of a payroll fraud is an incident that occurred at the Social Security Administration. A Social Security employee assigned to a branch office was responsible for maintaining time and leave records. She was also responsible for sending the information recorded on the time and leave records to central HEW payroll by teletype. The individual would add fraudulent overtime hours to her own payroll data before sending it. This same individual was also responsible for distributing payroll checks. The fraud was only detected because the timekeeper was absent on a day payroll checks were received for distribution. Her supervisor distributed the checks and happened to notice the timekeeper was receiving excess pay. Before the scheme was detected, the individual had received $3,200 in fraudulent overpayments. Although HEW policy required a separation of duties in the payroll process, this internal control requirement was not being followed. The individual in question received a 3-year suspended sentence and was required to reimburse HEW.

Unless you have any questions, I will go to the next chart.

CHAMPUS EMBEZZLEMENT

Senator MAGNUSON. What about the CHAMPUS embezzlement you mentioned a few moments ago? What has been done to correct that?

Mr. RUNNING. There has been an indictment. The embezzlement occurred in Korea, and it involved that part of the CHAMPUS program that services dependents in the Far East. DOD has moved the program office to Honolulu to tighten up controls, and has provided greater separation of duties. However, when we visited the program office in Honolulu we found that the office did not have an accurate list of eligible participants in the program. Based on our work at the Honolulu office, we feel there are still internal control deficiencies which could lead to additional fraud.

BUILDING MANAGEMENT

Senator MAGNUSON. In the case involving the GSA building management specialist, was restitution ever made?

Mr. RUNNING. They never recovered the $300,000—I think they may have recovered a small portion of it. I am not sure. We can provide that for the record. But as far I know they didn't recover the whole amount.

Senator MAGNUSON. No action was taken against the employee?

Mr. RUNNING. He was convicted.

Senator MAGNUSON. Followup information on the case will be received from GAO and placed in the record at this point.

[The information follows:]

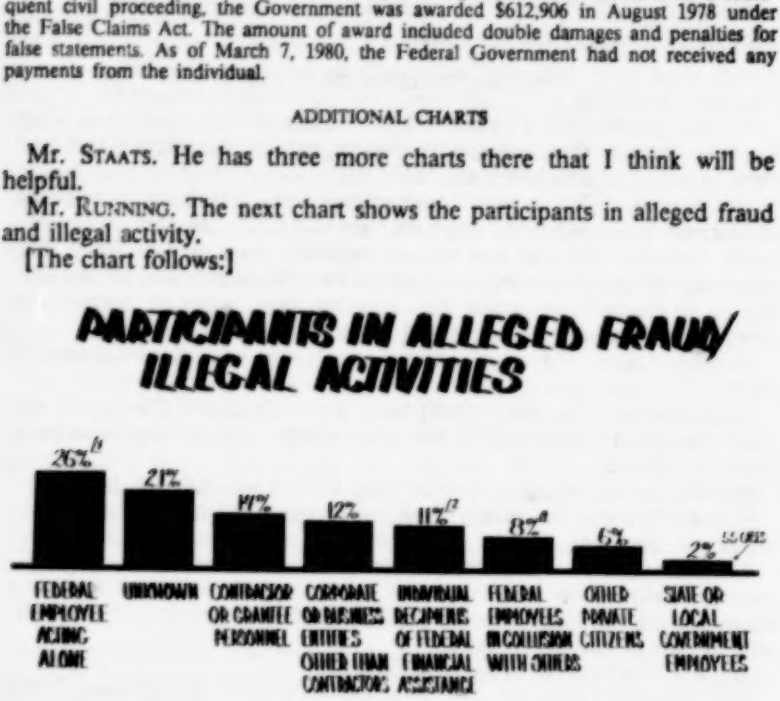
In a criminal proceeding the defendant pleaded guilty to embezzlement. In a subsequent civil proceeding, the Government was awarded $612,906 in August 1978 under the False Claims Act. The amount of award included double damages and penalties for false statements. As of March 7, 1980, the Federal Government had not received any payments from the individual.

ADDITIONAL CHARTS

Mr. STAATS. He has three more charts there that I think will be helpful.

Mr. RUNNING. The next chart shows the participants in alleged fraud and illegal activity.

[The chart follows:]



[a] INCLUDES MILITARY AND POSTAL SERVICE PERSONNEL
[b] PERCENTAGES MAY INCREASE WHEN ALL HEALTH AND WELFARE CASES ARE INCORPORATED INTO DATA BASE

Mr. RUNNING. Before I begin, I would like to point out many of our health and welfare cases have not yet been incorporated into our data base. Also, the bulk of our DOD cases have not been incorporated. So I anticipate that once we get all 5,000 cases into our data base these percentages might well change.

As you can see from the chart, about a quarter of our cases involved Federal employees acting alone. These involve a wide variety of frauds including embezzlement, cheating on travel vouchers, and payroll fraud.

Senator MAGNUSON. These are Federal employees?

Mr. RUNNING. These are Federal employees, yes, sir.

Senator MAGNUSON. Suppose the Federal employee wants to juggle the books around, which constitutes fraud. Have you found that he would keep it himself or give it to a third party or what?

Mr. RUNNING. Well, we have two categories. These cases involve Federal employees who committed fraud on their own. Over here we have another category, Federal employees in collusion with others, and the type of example you gave would fall into this category. As you can see, about 8 percent of our cases involved Federal employees in collusion with others.

Twenty-one percent of our cases involve situations where the perpetrators of the fraud were never identified. The vast majority of the 500 cases in this category are theft cases.

FEDERAL EMPLOYEE DISCIPLINE

Senator YOUNG. Mr. Chairman, I would like to ask a question. What has been done in these cases, with Federal employees, where you found them involved in fraudulent dealing?

Mr. RUNNING. The major thrust of our work has been to evaluate these cases to see what the agencies have done, and as part of our ongoing analysis we are looking at selected cases where fraud has occurred. We are evaluating the internal control systems and we are trying to find out what action the agencies have taken to correct the situations which have allowed fraud to occur.

Senator YOUNG. Have any Federal employees been fired because of this?

Mr. RUNNING. Yes, sir. I don't have the statistics off the top of my head, but we do have quite a few cases where Federal employees have been disciplined.

Mr. STAATS. He has another chart that I think will help on that.

Senator YOUNG. The reason I ask is because it is very difficult to fire a Federal employee.

Mr. RUNNING. That is correct. When our final report comes out it will provide statistics on what types of administrative actions have been taken against the Federal employees. So that information will be available as part of our final report.

Senator BURDICK. What about legal action?

Mr. RUNNING. Yes, sir, that information will be in our report. We have a chart which will show what legal action has been taken.

Our next category is contractor or grantee personnel. This category comprised about 14 percent of our cases. These types of frauds include such things as misuse of grant funds, intentional failure to meet contract specifications, and misuse of Government equipment.

CORPORATE OR BUSINESS ENTITIES

Our next category is corporate or business entities other than contractors. That made up about 12 percent of our cases. A good example of the type of case that would fall into this category would be some of the cases we have where pharmacists have been overcharging on medicare prescriptions.

Senator MAGNUSON. On defense contracts, we did have the Federal Renegotiation Board which was supposed to audit to see if there were overcharges and things of that nature. That has disappeared, I think.

Mr. RUNNING. Yes, sir, that is correct.

Senator MAGNUSON. So you would have to accept those complaints at GAO.

DETECTED FRAUD

Mr. RUNNING. I should point out that what we are looking at are cases of detected fraud. In order to do our evaluation of controls, we

have gone to the agencies and identified those cases that are actually detected. We are not actually investigating these cases ourselves. These are cases that have been investigated by the agency or by the FBI, and that is the universe we are working with. We are not doing investigative work. We are gathering statistical data on how the cases have been handled, what kind of problems have been identified, and what types of actions the agencies have taken.

Senator MAGNUSON. I do think it is important to see there was followup and to find out what has been done. We should not only get statistics, but find out if anything has been done to correct the problem.

Mr. STAATS. We want to find out what has been done and also what needs to be done to prevent it happening in the future.

Senator MAGNUSON. That is where audits come in and that is what we are interested in. We want to know what has been done about these things and what can be done to stop them in the future—to reduce them to an absolute minimum.

Mr. STAATS. We are just about half way through with this study, and these represent 2,400 cases out of a sample of 5,000 cases we are selecting out of universe of 130,000 cases. As Mr. Running explained, we haven't really been able to get very far into HEW and the Defense Department. HEW and Defense make up about half of these 130,000. We are not ready at this point to make our recommendations. We have some tentative recommendations which I would be glad to discuss after he finishes discussing the charts.

CONTROL SYSTEMS

Senator MAGNUSON. Let me ask this: Let's take HEW, or medicaid or medicare. Those are big items and susceptible to a great deal of fraud. Do you have a team that zeros in on those particular problems or do you have a team that zeros in on all the cases?

Mr. STAATS. We have a team that zeros in on the Community Services Administration, Naval Material Command and the Comprehensive Employment and Training Act. We are looking at the kind of control systems they have so that we can then use that to see whether or not we can make suggestions to all the rest of the Federal agencies. We are hoping that through these in-depth studies we will be able to generalize with respect to Defense, HEW, and other agencies.

Senator MAGNUSON. What is your procedure if an agency says it is going to do something about a particular problem, but then you find out it hasn't?

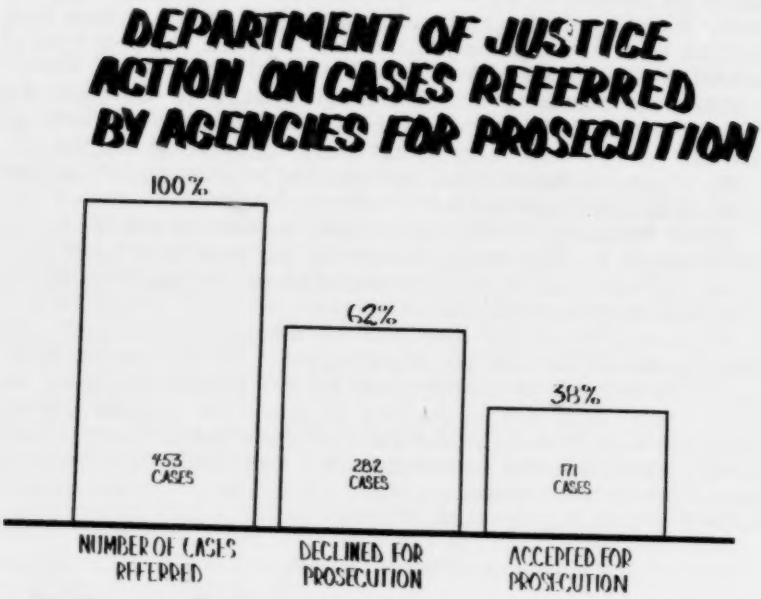
Mr. STAATS. He has another chart which I think will help on this. The chart shows what has happened to cases referred by the agencies to the Justice Department.

I think maybe you have covered enough on this chart. Let's go to the next chart.

Mr. RUNNING. Our next chart shows the number of cases referred to the Justice Department, the number declined for prosecution, and the number that the Justice Department decided to prosecute. As you can see, of our 2,400 cases in the sample, 453 cases were referred by the agencies to Justice for prosecution. However, in 282 cases the Justice

Department declined to prosecute. In 171 cases, or 38 percent of the total referred, the Justice Department proceeded to prosecute.

[The chart follows:]



Senator BURDICK. What was the reason why the Justice Department declined to prosecute the other 62 percent?

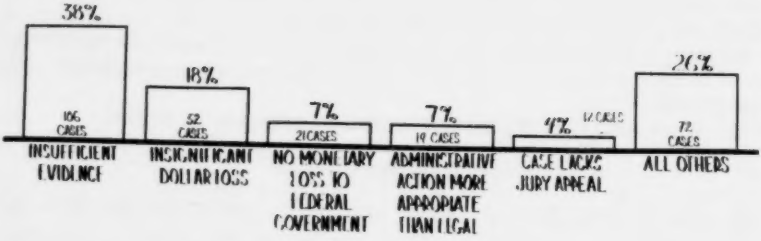
Mr. RUNNING. We have a chart that breaks that out.

[Laughter.]

Mr. RUNNING. The reasons given by Justice for not prosecuting the cases are shown in this chart.

[The chart follows:]

REASONS GIVEN BY JUSTICE FOR NOT PROSECUTING CASES REFERRED BY AGENCIES



Mr. RUNNING. As you can see, the highest category of reasons was insufficient evidence. Thirty-eight percent of the cases were declined for insufficient evidence; 18 percent of the cases were declined because the U.S. attorney or Justice considered the dollar loss to be insignificant; 7 percent of the cases were declined because there was no actual monetary loss to the Federal Government as a result of the theft or illegal activity; another 7 percent of the cases were declined because the U.S. attorney or Justice felt administrative action would be more appropriate than legal action given the circumstances of the particular case; 4 percent of our cases were declined because the U.S. attorney felt that the case lacked jury appeal.

Senator MAGNUSON. They anticipate how the jury is going to go?

Mr. RUNNING. That is one consideration in reviewing the case. If they feel they have a situation where the jury wouldn't convict, sometimes they don't accept the case.

Senator MAGNUSON. I am an old-time district attorney, but I didn't know that we anticipate what the jury is going to do in any case we feel should be prosecuted. But go ahead—that's the reason the Justice Department gave.

Mr. RUNNING. I might point out, when we collected statistical data on these cases, we took the reasons the Justice Department gave, and this is the reason that was actually given by the U.S. attorney or the Justice Department for declining the cases. We didn't try to second-guess. We just took the reason they gave.

Senator MAGNUSON. This is limited to fraud cases?

Mr. RUNNING. Fraud or other types of illegal activity.

STUDENT LOAN PROGRAM

Senator MAGNUSON. Well, this committee has a problem involving student loan defaults.

Mr. RUNNING. We found quite a few problems with the student loan program.

Senator MAGNUSON. As I understand it, these default cases are given to the local district attorneys to be prosecuted in civil court.

But in looking at student loan defaults during the past few years, we found that few—if any—civil cases were filed even though the loans were long, long overdue. On top of that, this committee heard from HEW that we should hire bill collectors to go out and collect the defaulted loans since the district attorneys didn't want to get involved.

Mr. RUNNING. Yes, sir, we found there were very, very few instances where the Justice Department took any type of civil action.

Senator YOUNG. Don't you find areas in the United States where there is little repayment and other areas where there is practically 100 percent repayment?

Mr. RUNNING. That is correct, it varies from region to region.

OFFSET ON TAX REFUNDS

Senator YOUNG. Do you have any recommendations on how to correct that?

Mr. STAATS. One recommendation we have, Senator Young, would be to allow the Internal Revenue Service to take an offset on tax refunds.

Senator SASSER. If I may interrupt there, Mr. Staats, we introduced an amendment in the Appropriations Committee, following your suggestion, to allow the IRS to have a checkoff against those students who had not repaid their loans and it was uncontroverted that they owed the money. The chairman supported that amendment very strongly, and I think Senator Young did, too, and we got it passed in the Appropriations Committee. It was unfortunately defeated on the Senate floor. With your support and the ranking minority member's support, I would like to look into bringing that amendment up again in an effort to follow the General Accounting Office suggestion to collect these loans.

Mr. STAATS. The idea is that if a student owes the Government money and he is able to get a job and able to get a tax refund, he is able to pay the loan back. The offset practice is a very common practice in the Government. If the individual owes the Government money and the Government owes the individual money, then we take an offset. We see no reason why this wouldn't be appropriate in this particular case.

FOOD STAMP PROGRAM

Senator YOUNG. The food stamp program is expanding by billions of dollars. It is a well-known fact that you can be very wealthy and still get food stamps. If you talked to a State welfare director or a county welfare director, they will tell you if the law were changed and the regulations were changed, they could stop this business of providing food stamps to wealthy people. Have you gone into that at all?

Mr. STAATS. Yes, we have. We have made at least one report to the Congress fairly recently on this in terms of what we think can be done to improve the controls on food stamps. I will be happy to give you the details on that if you like.

Senator YOUNG. Have you ever discussed this with State welfare directors or county welfare directors who know the programs better than anyone?

Mr. STAATS. Yes. What is more, we found needy people who were getting assistance from many sources. Some were getting payments up to $18,000 to $20,000 a year simply because one agency didn't know what assistance the other was giving.

Senator YOUNG. I think Congress is largely to blame for writing the laws so loosely.

Senator MAGNUSON. Out in my State, I noticed the other day that merchants are being prosecuted for accepting food stamps in payment for items which are not authorized under the food stamp program. But that is a local matter. Go ahead.

INSUFFICENT EVIDENCE

Senator BURDICK. There appears to be a contradiction here. All the cases on this chart are supposedly fraud cases, yet you say 38 percent were declined for prosecution by the Justice Department for insufficient evidence. If there was insufficient evidence, how would you know it was fraud?

Mr. RUNNING. What we are dealing with are alleged or proven fraud cases.

Senator BURDICK. Then you are making allegations. You don't know that the 38 percent are fraud.

Mr. RUNNING. That is right. These are cases where the agency felt they had a sufficient case to send to the U.S. attorney, and the U.S. attorney reviewed it and said no, we don't believe you have sufficient evidence.

Senator BURDICK. So that 38 percent are suspected.

Mr. RUNNING. Suspected.

Senator MAGNUSON. What is included in the "all-others category?"

Mr. RUNNING. This covers a wide variety of reasons. For instance, 2 percent, or six of our cases, were declined because they lacked prosecutive merit. I don't have a list of all categories, but we can provide one for the record if you like.

Senator MAGNUSON. Give us a breakdown.

Mr. RUNNING. We will get that prepared.

[The information follows:]

Breakdown of "other" reasons given by Justice Department or U.S. attorneys for declining cases

Reason	Number of cases
Individual died	1
Referred to State or local authorities for prosecution	5
Individual too ill to stand trial	1
Mental condition of individual	4
Declined in lieu of administrative action	1 7
Fund/property recovered or being recovered	6
No suspects	2
Individual in prison/convicted on other charges	3
Age of suspect	4
No fraud occurred against Federal Government	5
Lack of criminal intent	2

Breakdown of "other" reasons given by Justice Department or U.S. attorneys for declining cases—Continued

Reason	Number of cases
Facts contain domestic overtones	1
Pre-trial diversion program accepted	1
Evidence illegally obtained	2
U.S. attorney declines to prosecute cases of this nature	3
Inept search and seizure	1
Contractor/employee no longer employed	3
Individual is bankrupt	1
Individual cooperated with investigators	1
Not in Government's best interests	1
Recommended civil rather than criminal actions	1
Individual prosecuted on later offense	1
Lack of evidence	[2] 1
Immaterial dollar value of loss	[3] 1
Better cases available	1
Technical violation	1
Nature and extent of violation	1
No legal action would succeed	1
Criminal investigation needed	1
Lacks prosecutive merit	6
Reasons unknown	3
Total	72

[1] Final editing of the computer data was not complete at the time of our presention. The seven cases in this category are being added to the cases under "administrative action more appropriate than legal" which was presented on the chart.

[2] The case in this category is being added to the cases under "insufficent evidence" which was presented on the chart.

[3] The case in this category is being added to the cases under "insignificant dollar loss" which was presented on the chart.

LACK OF PROSECUTIVE MERIT AND LACK OF JURY APPEAL

Senator BURDICK. What is the difference between lack of prosecutive merit and lack of jury appeal?

Mr. RUNNING. Quite frankly, it varies from U.S. attorney to U.S. attorney.

Senator BURDICK. I am also an attorney.

Mr. RUNNING. Lack of prosecutive merit is sort of a nebulous term.

ACTION OF THE JUSTICE DEPARTMENT

Senator MAGNUSON. Let me ask you a $64 question. Are you disappointed with the action of the Justice Department in not prosecuting as many cases as you think they should?

Mr. SCANTLEBURY. We really haven't analyzed these cases to that extent. We just have the basic statistics. We do expect to go into that at a later date, but we just haven't proceeded that far in our audit.

Senator MAGNUSON. You haven't made up your mind yet, but they are suspect.

Mr. SCANTLEBURY. We have not gone into these particular cases to the extent of going over and doing analytical work to reach a conclusion.

DEFINITION OF FRAUD

Mr. STAATS. Let me say two points on that, Mr. Chairman. One is—and this gets back to Senator Burdick's question—the agencies do

not follow a common definition of what constitutes fraud. There is no guidance which says clearly to the agency what they should refer to the Justice Department and shouldn't. We think the Justice Department has authority to do that, and we have recommended they do provide the agencies with guidance as to what cases get referred. So that 38 percent may be due to the fact the agencies are acting in good faith when they are sending alleged fraud cases to the Justice Department, but one agency may be following a different set of ground rules than another. So we have recommended the Justice Department get some common guidelines to the agencies as to what cases they refer as fraud and what cases they do not.

GROWTH IN FRAUD AND ILLEGAL ACTIVITIES

The second point I would make would be that the growth and volume of fraud and illegal activities is so heavy that if you took them all into court, you would swamp the court. So what we are tentatively thinking is recommending to Congress that we get some legislation which would enable the agency to go ahead and settle the case, particularly civil cases, under guidelines established by the Justice Department.

Senator MAGNUSON. Such things as student loans.

Mr. STAATS. Yes. To take all the cases into court, you would not get the court to function at all. This is a tentative recommendation we are thinking about now, and I believe that this is one that the Justice Department will support.

Senator MAGNUSON. This study has been going on since 1978, hasn't it? I mean you started this inquiry in 1978, didn't you?

Mr. SCANTLEBURY. Not this particular one.

Mr. STAATS. That is true. These cases refer to the period of 2½ years ending in March 1979.

Senator MAGNUSON. When do you think you will finish, or will you ever finish, or is this a continuing report?

Mr. STAATS. I am sorry. This study wasn't started in 1978. You are referring to another study, our September 1978 report on the need for agencies to do more to combat fraud. We started collecting data for our overview study which we are discussing now about 10 months ago, but actual analysis of the data was just initiated in the last 2 or 3 months.

ESTIMATE OF FRAUD AND WASTE

Senator MAGNUSON. But the Justice Department is the department that gave you the estimate that fraud and waste amounted to as much as $25 billion a year, isn't that correct?

Mr. SCANTLEBURY. That estimate——

Senator MAGNUSON. In other words, they gave you the high estimate, and yet they are not prosecuting as much as they should be.

Mr. SCANTLEBURY. The estimate that 1 to 10 percent of Federal expenditures for economic assistance might be lost through fraud was made by a Justice Department official. The high level of that estimate would be about $25 billion. This was sort of an off-the-wall estimate.

Senator MAGNUSON. It isn't a valid estimate?

Mr. STAATS. No, it is not valid.

Senator MAGNUSON. But they are the ones who made it. They made it extremely high, and, frankly, if it is that high they are not doing the job of prosecuting as well as they should be. But I don't think it is that high.

Mr. STAATS. We don't either, Mr. Chairman, but the truth of the matter is we don't know for sure.

LOSSES THROUGH FRAUD

Senator MAGNUSON. That is the next question I was going to ask you. Is it true that there is still no firm information on how much the Government is losing through fraud?

Mr. STAATS. If we knew exactly, then we could do more about dealing with it. The answer is a lot of fraud takes place that cannot be detected under present procedures. We realize, and I think all people realize, you cannot completely eliminate fraud in all operations in Government. Private industry doesn't either. But what we are saying is we ought to take reasonable actions to try to minimize fraud and illegal activities in the Government. We don't think we are doing as much as we should be doing today.

Senator MAGNUSON. To reduce the possibility of fraud, you mean?

Mr. STAATS. That is correct. We ought to prevent it. That is the main point. We ought to prevent it from happening in the first place, rather than chasing it after it happens.

Senator MAGNUSON. It seems to me sort of odd. The Justice Department makes this big allegation that up to $25 billion is lost though fraud, and then they seem to be dragging their heels. They ought to be doing more about it.

Mr. STAATS. Mr. Civiletti has since denied or withdrawn that figure in testimony before the Joint Economic Committee.

HOTLINE CASES

Senator MAGNUSON. Let's get down to the hotline cases. Can you tell us how many hotline cases have been referred to the agencies in total up till now?

Mr. EGAN. Mr. Chairman, we have referred approximately 3,500 hotline allegations to some 29 Federal agencies for their review.

Senator MAGNUSON. What I am trying to get at is how many were referred. You had to screen them.

Mr. EGAN. We received approximately 14,000 calls last year.

Senator MAGNUSON. You have screened how many?

Mr. EGAN. Initially, we screened it down to about 7,500. After further screenings we referred about 3,500 cases to agencies that have investigative resources.

Senator MAGNUSON. And they have been referred to the Inspector Generals. Is that correct?

Mr. EGAN. Correct.

Senator MAGNUSON. Of the agency involved.

Mr. EGAN. Yes, sir.

Senator MAGNUSON. I understand 840 of these referrals have been

closed and in 111 of those cases, the allegations have been substantiated and administrative action has been taken. Is that correct?

Mr. EGAN. That is correct, sir.

Senator MAGNUSON. So the Inspectors General took hold of at least 111.

Mr. EGAN. They have taken hold of 840, because they have done something with them.

Senator MAGNUSON. They took action, then, in the sense that they closed those cases.

Mr. EGAN. We have approximately 2,500 that are still in the hands of those Inspectors General, and to the best of our knowledge they are being investigated today.

PROGRAM MANAGERS

Senator MAGNUSON. Do you think the program managers are doing their job well?

Mr. EGAN. Program managers in relation to the hotline cases?

Senator MAGNUSON. Yes.

Mr. EGAN. We are dealing primarily with the audit and investigative groups at this point.

Mr. SCANTLEBURY. One problem we have had with the program managers that touches on this area is in the follow through on the collection of moneys that auditors determine that grantees owe back to the Government. When a grantee gets some money and he spends it for an unauthorized purpose, he owes it back to the Government. Program managers do not have a very good record in following through in getting that money back. This is one of the things that the Office of Management and Budget has been putting a lot of emphasis on.

ADMINISTRATIVE ACTION

Senator MAGNUSON. Sometimes the administrative action is merely a slap on the wrist, isn't it?

Mr. SCANTLEBURY. Administrative action in many of these cases can involve a very wide variety of disciplinary actions.

Mr. EGAN. Mr. Chairman, I have an example here that I think makes your point about the question of administrative action taken. This relates to an allegation on the hotline of a theft of Government surplus property. It deals with property valued at over $5,000. It was allegedly stolen by five Navy people stationed at the Norfolk Naval Station. A confession was obtained after investigation by the Department of Defense. The means for circumventing the internal controls were uncovered. The Department of Justice declined prosecution and final agency action was a verbal reprimand to the individuals involved. We found that the inadequate internal control systems were strengthened to hopefully prevent the same type of theft from happening again.

This is a point you were making, that the action taken by the individual agency isn't always adequate. We really haven't evaluated that. However, this is a case where there was $5,000 found to be stolen by five Navy employees. The money was recovered, but Justice declined prosecution and little administrative action was taken.

DEPARTMENT OF JUSTICE ANTIFRAUD EFFORTS

Senator MAGNUSON. According to my information, about 90 hotline allegations have been referred by the General Accounting Office to the Department of Justice, and of the 10 that have been closed by the Department, 9 were found not to have any substance. Is that correct?

Mr. EGAN. That is correct, sir.

Senator MAGNUSON. In your original 1978 report on fraud, you concluded that the Department of Justice had been slow in assisting in Federal agency antifraud efforts. On the basis of your overall study to date, do you have any reason to change those conclusions?

Mr. EGAN. My concern primarily is with those nine, and we are looking into reasons the Department of Justice has declined those particular cases. I feel very confident when we finish our overview study we will have a better feel for the reasons Justice declines cases and on the kinds of actions the Department of Justice is taking on cases.

QUESTIONS SUBMITTED BY THE SENATOR MAGNUSON

Senator MAGNUSON. I have some additional questions, but because of time limitations, I will submit them to be answered for the record.

[The questions and responses follow:]

Questions Submitted by Senator Magnuson

QUESTION

Could you give us the disposition of the cases mentioned by Mr. Running in his discussion of the overview study? Have agencies taken action to solve the problems that allowed the fraud and waste to occur in the first place?

ANSWER

The following presents a brief synopsis of the cases discussed by Mr. Running.

GSA

A GSA Building Management Specialist took advantage of inadequate controls to establish a fictitious company which received over $300,000 in payments for services never performed.

Payments were received for over 140 fraudulent invoices because of inadequate controls in the following areas:

(1) Contract numbers were easily accessible;

(2) Accounting control transaction numbers were not protected from unauthorized use;

(3) Purchase orders were not required to justify the obligation of funds;

(4) Fund balances were not maintained to reconcile with allotment reports; and

(5) Authorizing signatures were not verified.

When GSA discovered the fraud, it took quick action to improve internal controls to prevent this type of fraud from happening again. Additionally, less than a year after the discovery, the perpetrator was tried, convicted, sentenced to a year in jail and ordered to make restitution of the full amount.

Department of Health, Education and Welfare

A loan guarantee fraud is illustrated by a scheme in which 7 individuals defrauded the Government of $103,000 by illegally obtaining Basic Educational Opportunity Grants and Guaranteed Student Loans. The individuals applied and were accepted at various colleges, waited for loans and grants to be approved, cashed the checks at the college tuition office, paid a single installment on the tuition bill, and kept the rest of the money.

All 7 were successfully prosecuted. Department officials did take some actions to strengthen controls, but we feel that they would not adequately prevent this type of fraud from occurring again.

Department of Defense

A good example of a fraud involving financial assistance to individuals is the embezzlement of almost $2 million over a 3-year period from the Department of Defense's CHAMPUS program which provides medical care by non-Government hospitals and doctors to eligible military personnel and their dependents. A civilian program administrator in Korea allegedly embezzled the funds by preparing and certifying over 3,300 phony medical claims for inflated amounts, and having the payments sent to post office boxes which he controlled. Once the checks were delivered, he cashed them, paid the hospitals what they were owed, and pocketed the rest.

The administrator was able to commit the alleged fraud because he was the only person receiving and adjudicating the claims. He also served as the sole certifying and approving officer for all claims. The lack of internal controls was compounded by the fact that there was weak management supervision over the administrator.

A Federal grand jury indicted the administrator, on November 7, 1979, but both he and most of the money have disappeared.

After the fraud, responsibility for processing claims and approving payment was transferred to Hawaii where claim processing is separated from claim payment. The potential for fraud still exists because it is difficult, if not impossible, to verify whether or not Far East claims are legitimate. A comprehensive listing of eligible beneficiaries and providers does not exist. Moreover, verification is further hampered by the distance between Hawaii and Far East countries.

Department of Transportation

Government equipment valued at $3,390 was allegedly stolen from two Federal Aviation Administration (FAA) facilities sometime between February 1978 and July 1978. Agency investigators could not identify suspects or determine the exact method or dates the equipment was stolen; however, their investigation disclosed several problems relating to building security and physical control and accountability of inventories.

Inventory control problems were not new to the location. As early as

March 1977, an agency official had reported that he could not determine the accuracy of the inventory because property records had not been properly maintained since 1975.

Building security at the two facilities was not adequate. Although both were equipped with locking systems to restrict unauthorized entry, the locks were inoperative or not in use during the period the theft occurred. In addition, physical control and accountability of inventories was also deficient. Agency officials did not adequately secure equipment that was being shipped or received. These offices were easily accessible to a number of individuals.

FAA recommended several corrective actions to prevent future theft but little was actually done. We found that weaknesses existing at the time of the theft have not been corrected.

QUESTION

When did the overview study begin? When will GAO report its final conclusions to Congress? Does GAO have any tentative recommendations to offer now about where major problems have occurred, whether actions are underway to solve the problems, and what steps should be taken to prevent further problems?

ANSWER

Initial planning and staffing of the "Overview" study began in January 1979. We currently plan to issue a final report during the fourth quarter of fiscal year 1980. At the present time, a limited amount of preliminary information on about 3,000 cases is available. Since edit and logic checks have yet to be completed, the final statistics may be significantly different from those currently available. Because of this, I feel that it would be premature to present recommendations specifically stating where major problems have occurred, whether actions are underway to solve the problems, and the steps needed to prevent further problems.

QUESTION

In the 52 cases that were declined by the Department of Justice because of insignificant dollar loss, what was the range of the dollar amounts involved?

ANSWER

The range of the dollar amounts involved in the 52 cases declined was from $2 to $10,633. These cases included declinations made by both Department of Justice headquarters and the various U.S. Attorneys throughout the country.

QUESTION

How many cases were declined by Department of Justice before going to the U.S. Attorney?

ANSWER

The declinations figures presented in the testimony represented the total for both Department of Justice and U.S. Attorneys. Our data collection instrument does not provide a breakdown of cases declined by Department of Justice officials and subsequently referred to a U.S. Attorney for prosecution. As a general rule, this situation would rarely occur. Cases are normally referred to one organization or the other, but not both.

QUESTION

How many cases were declined by the U.S. Attorney?

ANSWER

In the testimony presented on February 27, 1980, it was stated that 282 cases were declined for prosecution. Based on our preliminary breakdown of the figure, 236 of these cases were declined by U.S. Attorneys.

QUESTION

You testified that there were numerous problems in the student loan program, what were they?

ANSWER

We identified a number of examples of problems in the student loan program that showed up in our statistical sample of fraud cases. These included such activities as submission of false loan applications, misuse of student loan funds in the hands of educational institutions, and students receiving loans from more than one school at the same time.

Sloppiness in the administration of student loan funds makes it difficult in many instances to distinguish between honest mistakes and intentional wrongdoing. The student loan program and the other higher education student financial aid programs--the Education Opportunity Grant Programs

and the Work-Study Program--are administered by, and the funds are in the control of, institutions of higher education. About 85 percent of the program reviews done by HEW at educational institutions from April 1, 1978, through March 31, 1979, disclosed problems in the institution's meeting regulatory requirements or poor fiscal administration.

Over the past 12 years, GAO has issued a number of reports dealing with various problems in the student loan programs. Further, we have recently initiated a review of collection efforts of educational institutions of National Direct Student Loan Program funds.

QUESTION

How are you conveying your findings to the various agencies? Have you developed a special plan for this or will the information be released in your regular report form?

ANSWER

Overview information developed on the 21 Departments included in our review will be released in our final report. Data pertaining to an individual agency's cases will be made available once our data base has been cleaned up. As a general rule, we do not release statistical data obtained on questionnaires until all edit and logic checks have been completed and the data base has been adjusted. In the interim, we have been conducting briefings with all agencies expressing an interest in obtaining general comments on our findings.

QUESTION

You testified that GAO has recommended that the Justice Department provide guidance to the Agencies as to what fraud cases should be referred for prosecution. What has Justice done in this respect and what is GAO doing to see that this recommendation is being acted upon?

ANSWER

Since the issuance of GAO's report in September 1978, the Justice Department has been in the process of closely coordinating with the Federal agencies in the fraud area. It is in constant contact with the Offices of Inspectors General.

QUESTION

Will your overview study enable you to make specific recommendations for correcting and preventing fraud or is it just intended to show the general dimensions of the problem? When do you expect to complete the overview study? Do you expect to meet the June 1980 goal?

ANSWER

The "Overview" study is a general review of fraud and other illegal activities cases opened from October 1, 1976, through March 31, 1979. Although specific information on individual programs within each Department in our review has been obtained, our report will present recommendations of a general nature specifically centered around systems of internal and management controls. We feel that such systems are the key elements to effective prevention and detection of fraud.

We expect to have all data collection instrument processing completed by June 1980. A final report is scheduled for release during the fourth quarter of the current fiscal year.

QUESTION

When the Justice Department offered the estimate of $2.5 to $25 billion as being lost through fraud did GAO question that figure?

ANSWER

We must stress that it was an individual in the Department of Justice who made the estimate that $2.5 to $25 billion was being lost through fraud. The Department never acknowledged this as an official estimate. There is no firm figure on how much money is lost through fraudulent activities. However, because Federal agencies are more conscientious of identifying fraud, we would hope that a more firm figure will be available in the near future.

QUESTION

Could you give some specific examples to show the nature and variety of the hotline allegations and how they have been handled by the agencies to which they were referred. Briefly describe the nature of the alleged fraud, identify the alleged perpetrator and tell us what actions were taken against the individual and to correct the weaknesses which made the fraud possible.

EXAMPLE

A caller alleged that an SBA official and a local businessman engaged in mutually beneficial business transactions with SBA funds. According to the caller, the SBA official and the businessman purchased a motel and a ranch although the SBA official reportedly did not have the funds for the purchase. The businessman reportedly received SBA loans at 4 percent interest. An investigation by Security and Investigations, Office of the Inspector General, SBA, found a substantive conflict of interest situation on the part of an SBA employee. The employee also had failed to obtain permission for outside employment as required by Agency rules and regulations. According to an agency official, SBA has suspended the employee for 2 weeks without pay.

EXAMPLE

A call to the hotline alleged theft of Government surplus property (motor vehicle engines, typewriters, washing machines, etc.), valued at over $5,000 by 5 Navy employees of the Norfolk Naval Air Station.

Confessions were obtained, the means for circumventing the system of internal controls was uncovered, and the stolen material was recovered. Since the Department of Justice declined prosecution, and the final agency action was a verbal reprimand to the individuals involved, the need for adequate internal controls to prevent similar instances is apparent. At this time, we have not followed up in detail on this case to determine this. But we do have a review planned to start in a few months that should address an area such as this.

EXAMPLE

A call received by the Hotline staff alleged abuse of authority and violation of standards of conduct by a Navy Rear Admiral. Investigation verified scheduling of "training flights" to his vacation sites; use of Government vehicles and driver for personal errands on a regular basis; and the use of members of his official staff in outside employment for his personal benefit. Administrative action has been taken by the military service involved. According to a Navy Official, the Rear Admiral was formally censured by the Vice Chief of Naval Operations in September 1979.

QUESTION

As I recall, there was a story on the 60 Minutes Television Show where farmers used Government loans for purposes other than those stated in the loan application, and the SBA Inspector General's report described several cases of this type. Did you get any allegations like this on the Hotline?

ANSWER

We have received at least one call to the Hotline that alleged that 3 high-income farmers received SBA loans ranging from $220,000 to $2 million over a long term at a low-interest rate. The caller stated that this money was being put into high-interest certificates.

These allegations were referred to the SBA Inspector General and upon their investigation, they substantiated these allegations. In addition while SBA was conducting the investigation, they uncovered other individuals involved in the same scheme.

These cases have been referred to the U.S. Attorney for possible criminal action.

QUESTION

Does GAO systematically and periodically follow-up on referrals to agencies so you know what action is, in fact, taken by Inspector's General, the Department of Justice, or other officials?

ANSWER

Case referrals are forwarded to the respective Inspector General or designated investigative arm of the Federal agency on a daily basis.

The GAO requests an initial disposition of each case referred within 60 days, as well as a final disposition, when the case is completed. The final disposition will tell us in various levels of details whether or not the allegations were substantiated.

QUESTION

Your testimony regarding the actions taken by Executive Agencies on your Hotline referrals show that the greatest majority have been dismissed without any action being taken. Does this suggest that there is still a lack of concern on the part of program managers regarding fraud, abuse, waste, and error?

ANSWER

I believe it is still early to make any conclusions until we have had an opportunity to do the follow-up work that is scheduled to start in a few months. I think we have to remember that these referrals are allegations by people who often times remain anonymous thus making follow-up on some allegations extremely difficult. Also, I would suspect the ones closed as of this time would be the less complicated cases that can be checked into fairly quick.

QUESTION

Looking at the types of crime committed and the dollars involved, has GAO found any consistency in the types and severity of punishment being levied on those who were caught?

ANSWER

Based on the brief amount of information usually received on cases substantiated, it does not appear there is any consistency in the types and severity of punishment being levied. After the various follow-up work at the agencies is performed, GAO will be in a better position to analyze this area.

QUESTION

Do you feel that administrative actions such as a reprimand or suspension provide an adequate deterrent when Government employees are caught in fraudulent activity?

ANSWER

I believe in some cases reprimands or suspensions provide a deterrent when Government employees are caught in fraudulent activities. But it appears that more consistency and in some cases stronger actions are needed to adequately deter fraudulent activities by Government employees.

QUESTION

Does GAO find out whether the action taken to resolve Hotline allegations adequately solved the problem?

ANSWER

At the present time, we do not usually find out whether the action taken adequately solved the problem. Again, this question will be more appropriately addressed after our follow-up work is performed.

QUESTION

Do you find that in most cases suitable action has been taken to correct the situation which made the fraud possible and to prevent a recurrence?

ANSWER

At this time, we do not know. When we perform the follow-up review we will be in a better position to tell if the actions taken are adequate to prevent a recurrence of the fraud.

QUESTION

Is GAO satisfied with the follow-up by agencies on Hotline calls, as well as cases analyzed in the overview study? When will GAO report its conclusions and what additional steps should be taken?

ANSWER

Without having performed the proper follow-up work at this time, we cannot give you a conclusive answer. We have not been totally satisfied with the responsiveness of some of the agencies to our referrals. The detailed follow-up review dealing with how the agencies handled the GAO allegations is not scheduled to start for 2 or 3 months.

QUESTION

How many Hotline allegations have you sent directly to the Department of Justice and with what results?

ANSWER

The Fraud Task Force has sent 90 allegations of possible fraud or mismanagement directly to the Department of Justice. These allegations were referred to the Department because they came under their investigative jurisdiction or they involved Justice Department employees. Also, criminal allegations which involve agencies which do not have an Inspector General or an investigative body which we refer to, would be sent to the Justice Department. Thirty-three of these cases were referred to the Department as possible illegal activity uncovered as a result of GAO-related reviews.

There have been 10 allegations referred directly to the Justice Department that have been closed to date. Nine of these cases were closed out without finding substance to the allegation or warranting prosecution. In one allegation, after an audit by the Justice Department, non-fraudulent

irregularities were found with the time and attendance recordkeeping procedures and corrective action is being taken.

QUESTION

In 1978, GAO said in a report that the Department of Justice had been slow in assisting Federal agencies' anti-fraud efforts. Is that still true and what should be done to correct the problem?

ANSWER

In our opinion, the Justice Department is aggressively assisting Federal agencies' anti-fraud efforts and has made fraud one of its own top priorities. We will continue to monitor Justice's efforts in this area.

QUESTION

Last October, GAO issued a report which criticized the Department of Justice's policy of not instituting civil recovery action unless and until a criminal fraud action had been completed. Has the Department changed that policy? When will GAO be prepared to report to Congress on the progress Justice is making in resolving that problem?

ANSWER

Justice Department's policy of not instituting a civil action until the criminal fraud action has been completed is still unchanged. However, the Justice Department has formed a task force to study this policy and determine which mechanisms can be instituted to promote timelier civil action. The Department stated in response to GAO's report that efforts are being made to resolve the problems we noted. These efforts include proposed amendments to the False Claims Act, changes in Civil Division's guidelines to U.S. Attorneys, and improved coordination efforts between the Justice Divisions, U.S. Attorneys, and Inspectors General. The Justice Department further noted that it is making efforts to improve fraud debt collections by improving monitoring of the collections effort.

QUESTION

In the view of GAO, has the Justice Department done enough to prosecute cases referred from other agencies or GAO?

ANSWER

This is a difficult question to answer. However, our detailed analysis of some 3,000 cases referred for prosecution should provide some in-

formation in this area. However, we are not in a position to answer this question at this time.

QUESTION

One chart presented by GAO showed that the Justice Department turns down many cases because of "insufficient evidence." Is this because the agencies have not done a good job of investigating or will Justice only prosecute open and shut cases? What should agencies do to provide sufficient evidence?

ANSWER

The chart referred to was prepared based on information developed by our "Overview" effort. This review was performed to enable us to make general conclusions, on a Government-wide basis, on fraud and its causes. We did not attempt to evaluate the adequacy of agency investigative work or the justification for a Department of Justice declination of a particular case. The caption "insufficient evidence" was obtained directly from case files reviewed at each agency.

QUESTION

On the basis of your review of both "overview" and Hotline cases, do you find that individuals frequently are only getting a slap on the wrist for committing fraud?

ANSWER

Since only about 50 percent of our "overview" sample cases have been processed, it would not be appropriate for me to make a general statement in response to this question. Our final report will address the issue.

QUESTION

Mr. Staats, in your statement you discussed vulnerability assessments as being one of the Task Force's efforts. Which agencies are you looking at in this review and how did you select the agencies?

ANSWER

In our vulnerability assessments, we have been evaluating controls in the Department of Labor's CETA program, the Naval Material Command's Naval Sea Systems Command, and the Community Services Administration.

These agencies were selected after considering several factors such

as the volume and types of complaints received over the Hotline, audits currently underway, and the results of completed audits of these agencies.

QUESTION

Would you tell us more about what you expect to accomplish with this effort?

ANSWER

In our vulnerability assessments, we are evaluating, in depth, the internal control systems of selected programs and activities to see where weaknesses in these controls could allow fraud and abuse to occur. This effort is a significant undertaking because it strikes at the heart of the problem—the failures in internal control systems that permit fraud and abuse.

QUESTION

Can you give us some preliminary indications of what you have found?

ANSWER

The vulnerability assessments we have done, so far, have disclosed serious control problems. For example, we have found grantees with excess funds on hand. One Community Services Administration grantee had $409,000 in Federal funds on hand—enough to meet its cash need for 122 days even though the grantee could get a resupply of cash from the Treasury within 10 days.

During work at one CETA sub-grantee, we discovered what can be done with excess funds. This sub-grantee used $329,000 of excess cash to finance its city payroll. Although they later repaid these funds, this obviously was not the intended purpose of these funds.

QUESTION

Has GAO determined which programs, agencies, areas, etc., are the most vulnerable to fraud? When will that information be available?

ANSWER

With respect to work we have done as part of our vulnerability assessments, we have only been able to evaluate the adequacy of internal controls at the three agencies which were mentioned earlier. Because of the problems noted at each of these agencies, we plan to continue this effort after the termination of the Task Force.

Thus far, we have found significant internal control weaknesses in the performance of several tasks at each agency visited. Tasks which generally were found to be poorly controlled making them susceptible to fraud and abuse include:

-- grant management,

-- procurement,

-- payroll,

-- property management,

-- travel,

-- imprest funds, and

-- collecting funds owed the Government.

As mentioned in the testimony of February 27, 1980, all of the agencies visited thus far are vulnerable to fraud and abuse. This is because Federal headquarters, regional offices, and other field locations and grantees have inadequate internal controls over their operations. As a result, there is insufficient assurance that Federal funds spent at these locations are spent for the purposes intended.

QUESTION

You have pointed out the lack of monitoring of grantees by Federal personnel. What kind of job are grantees doing in monitoring their sub-grantees? We have heard about problems with this in the CETA program, for example.

ANSWER

We found a serious problem with monitoring sub-grantees at the Community Services Administration. Under the guise of training owners of small businesses and getting businesses started in depressed areas, a sub-grantee may have misused as much as $359,000 in Federal funds. The grantee in this case had failed to properly monitor how the sub-grantee was using the Federal money. Two employees of the sub-grantee actually spent $16,000 of the money to pay off personal loans and also absconded with records necessary to show where the remaining money was spent. The Federal agency believes that virtually none of the $359,000 was spent for its intended purposes. This matter is currently being investigated by the Department of Justice.

QUESTION

Does GAO feel that the agencies are working hard enough to detect fraud and waste and to prevent them? What more should be done?

ANSWER

There is no question that departments and agencies, as a whole, are aware of and concerned with the problems of fraud, abuse, waste, and error in their programs and activities. My personal discussions with the Inspectors General indicate that they are dedicated to the prevention of fraud, abuse, waste, and error in their agencies and to the detection of those who circumvent financial and management controls for their personal gain.

Regarding what more departments and agencies should do to prevent and detect fraud and abuse, we can only address this question as it relates to the three agencies where we conducted a detailed assessment of their vulnerability. Although the Department of Labor, Community Services Administration, and the Naval Material Command are probably more aware and concerned with fraud and abuse than they were when we began our audits, we still believe that much more needs to be done in these agencies to strengthen internal controls over functions performed.

Good internal controls are the most effective deterrent to fraud, embezzlement, and related illegal acts. Internal controls are the body of checks and balances which organizations set up to spread work out in such a way that one person or function checks on what another person or function does. These checks detect errors and make fraud and related illegal acts more difficult to commit.

At these agencies, we found that the internal controls over their operations were inadequate to prevent or minimize the opportunity for fraud and abuse of Federal funds and property. We believe that the reason internal control systems are in a state of disrepair is that top management has devoted most of its concern and emphasis to delivering funds and services and that effective controls over tasks and functions which lead to the delivery of these funds and services has had a low priority. Because of top management's insufficient concern for internal controls, middle management reflects this same indifference. That sentiment is passed down to internal audit staffs which have spent little time evaluating the adequacy of inter-

nal controls over all agency functions. Furthermore, when internal auditors have reported weaknesses in controls only over the portion of a task or program audited, management has often dismissed these findings as unimportant. This attitude not only precludes corrective action but also reduces the audit staff's concern for internal controls.

To reduce vulnerability to fraud and abuse, top management must first emphasize to all management levels, from the Federal level to the local community level, the significance of good internal controls and the necessity for managers to make sure that tasks and functions for which they are responsible are adequately controlled to prevent or reduce risks of either intentional or accidental misuse of Federal funds or property. Next, top management must make sure that its internal controls over its operations are adequate by having its internal audit staffs review them. Furthermore, if internal control weaknesses are found, agencies must investigate to determine whether anybody took advantage of the system for personal gain. Just as importantly, however, agencies must correct internal control weaknesses by increasing internal control as long as it is cost-beneficial.

QUESTION

Have you brought the results of your study to the attention of department heads?

ANSWER

As we normally do in all of our reviews, we are keeping agency officials abreast of our findings as the study progresses.

QUESTION

Are they taking steps to deal effectively with the problems you have pointed out?

ANSWER

Yes, Mr. Chairman they have either begun or are planning to take effective corrective actions on weaknesses brought to their attention. We will, of course, follow-up on their efforts.

QUESTION

What can and should be done to prevent Federal grantees from drawing cash from the Treasury in excess of current needs?

ANSWER

As you know, Mr. Chairman, this is a problem that has plagued the Federal Government for some time. Essentially, we believe this situation could be overcome with more attention and support from management in the agencies. With more emphasis and monitoring by high-level officials, grant managers will enforce existing Treasury regulations and auditors' discoveries of excess cash will be acted upon.

QUESTION

Could GAO write general provisions for inclusion in appropriations bills that would prevent that problem or others?

ANSWER

Many of our past reports have contained recommendations for changes in legislation to correct problems we have found. We are always available to assist congressional committees in drafting legislation. We would be pleased to work with your committee to develop general provisions for appropriations bills.

QUESTION

Last year GAO issued a report which found that Federal agencies had a backlog of some $4.3 billion in unresolved audit findings. Could you tell us what, if anything, has been done to correct this situation?

ANSWER

There are indications that some of the $4.3 billion in unresolved findings has been reduced. We plan to do follow-on work in this area to determine this amount. OMB has established new guidelines requiring a written determination on all audit findings within a maximum of 6 months after issuance of the report. This new requirement should go far to help reduce the amount of unresolved audit findings.

QUESTION

How much of that $4.3 billion in unresolved audit findings which GAO reported in 1978, is still pending? How soon could GAO give us that number? Should GAO be put in charge of tracking all audits over 6 months old?

ANSWER

At this time, we do not know how much of the $4.3 billion is unresolved. However, we are now planning work in this area to determine the

amount. The timely completion of this effort will depend largely on the cooperation from Federal departments and agencies.

In response to your question on tracking, GAO should not track all audits over 6 months old. This is the responsibility of management in the funding agencies. It is management's responsibility, as we pointed out in our report, to insure that monies are spent as Congress intended. In carrying out this responsibility, each agency should establish an appropriate system for tracking and controlling audit findings.

QUESTION

In your testimony, you referred to the effort by OMB and individual agencies in the audit resolution area. I am particularly concerned since the $4.3 billion if properly resolved would affect individual agency funding needs. You mentioned EPA's failure on one audit resolution. Is this an isolated example or are there other agencies involved?

ANSWER

We are currently reviewing the agencies' efforts in this area and will be able to fully address this issue when our audit is complete. We do have some preliminary examples of the EPA type.

-- Labor is still undecided on whether to recover at least $5.6 million in 3 cases. The latest status report in one case was about 6 months old.

-- In addition, Labor officials did not reopen a case involving $23,000 in questioned costs they closed by mistake. An official attributed this to a contracting officer's policy of not reopening cases previously closed.

-- HEW did not reopen or re-evaluate the questionable closing of $8.6 million in 2 cases. In one case, we reported that HEW's administration cited legal problems as the reason for allowing a grantee to claim $4.4 million which auditors determined should have been paid by private companies. This was done without evidence of legal advice.

QUESTION

Who is at fault in allowing audits to drag out and specifically what do you think should be done to resolve that problem? What steps should be taken to break the log jam of unresolved audits?

ANSWER

As our report indicated, Federal managers are failing to properly resolve audit findings primarily because they are busy with other duties and acting on findings has low priority. Another reason, related to low priority is that agency systems for tracking and controlling audit findings are deficient. We recommended in our report steps for insuring that resolution of findings is given high priority. One of these steps is that program managers be given 6 months to reach decisions on what amount, if any, is due from contractors or grantees as the result of audit findings. Another step is for agencies to require accurate records of all audit findings until a final disposition has been made. These steps, if properly implemented along with our other recommendations, will insure that audit findings are resolved promptly.

QUESTION

To the extent that the agencies have reduced their backlog of unresolved audit findings is there any evidence that this was accomplished by simply dismissing them or otherwise improperly resolving them?

ANSWER

This may very well be a problem although we do not have the evidence at this time to show improper resolution. This is another area our follow-on work will cover.

QUESTION

Is there any evidence that the revisions in the OMB circulars to which you referred are having a beneficial effort in reducing the number of unresolved audit findings and assuring that they are resolved in a proper manner?

ANSWER

The regulations should help in establishing appropriate systems. We have received indications that some agencies are improving their systems according to OMB regulations which OMB implemented as a result of our recommendations.

QUESTION

Do you think there is anything we can do here in the Appropriations Committee to help resolve this problem - for example, do you think we should

begin to reduce appropriation requests in direct proportion to the amount of unresolved audit findings?

ANSWER

We appreciate the support of this Committee and believe your efforts have certainly helped to give this issue the attention it deserves. As a further measure to help correct the problems, the committee may very well want to consider integrating information on unresolved findings into its budget review process. Such consideration should recognize that some of the unresolved amounts will be decided in the contractors' or grantees' favor and therefore will not be recovered. However, we believe a substantial amount of it would be recovered and therefore should be a consideration when determining an agency's appropriations.

QUESTION

Does GAO have an estimate on the amount of fraud in Government? When could such an estimate be provided?

ANSWER

We do not currently have an estimate of fraud against the Government. After all questionnaires have been edited and logic checks made, we will be able to make projections on the amount of fraud. Our figures will, however, be based on what is known to have occurred and will not address undetected fraud. We are planning to have this information by late June 1980.

QUESTION

Although the exact amount of fraud against the Government is unknown, don't your overview study and the Hotline results to date indicate that it is still very widespread?

ANSWER

Although known cases of alleged fraud and other illegal activities formed the basis for our Hotline and overview work, the preliminary data developed, to date, certainly indicates that fraud has been widespread. Specific data and projections based on our sample results will be presented in our final reports.

QUESTION

Do you feel that losses through waste and error are at least as great, if not greater than, those through fraud?

ANSWER

Although statistics on losses through waste and error are not available, I feel that the potential losses due to these problems are at least as large as those incurred through fraud.

QUESTION

What are the major problems which make all of this fraud, abuse and waste possible?

ANSWER

Strong internal and management control systems are absolute necessities in preventing and detecting fraud. The lack of such systems and noncompliance with established control procedures are the major problems which make fraud, abuse, and waste possible.

QUESTION

Have you found any agencies or programs which are particularly susceptible to fraud, abuse or waste?

ANSWER

Since we are currently working with preliminary data, I feel that it would be inappropriate to mention specific agencies and programs in response to this question. It does, however, appear that agencies administering programs requiring direct contact with, and participation by, the general public are the most susceptible to fraud. Social security, welfare, food assistance, and loan and mortgage guarantee programs are among the programs most frequently noted in our partially completed sample of cases.

QUESTION

At the direction of the President, the heads of all departments and agencies developed plans for the elimination of fraud, waste, and error from their programs. Has GAO reviewed those plans, and if so, what is its conclusions about their adequacy?

ANSWER

We have reviewed some of these plans. Considering the short time allowed to prepare assessments, the agencies did a fairly good job. However, we believe that these efforts were too superficial to really evaluate, in detail, the adequacy of internal controls over all tasks and functions performed by the agencies. In other words, they need to do more detailed assessments of their internal control systems to determine specifically where they are vulnerable, the extent of vulnerability, and the cost/benefit of tightening internal controls over operations.

QUESTION

If GAO thinks that not enough is being done to stop fraud in Government, what specifically does it think should be done? How soon can GAO prepare a list of additional steps it thinks should be taken to reduce fraud and waste further?

ANSWER

In order to stop, or at least significantly reduce, fraud against the Government, all department and agency officials must make a total commitment to strong internal and management control systems for all programs under their responsibility. In coordination with the staff of the Subcommittee on Federal Spending Practices and Open Government, Senate Committee on Governmental Affairs, GAO has been involved in drafting legislation which would require the head of each Department to certify as to the existence and adequacy of control systems for all programs within their Department. We firmly believe that top management's increased awareness of controls, as a result of this type of legislation, would be an invaluable tool in reducing fraud.

Upon completion of the Fraud Task Force effort, GAO would be able to prepare a list of additional steps which should be taken to further reduce fraud and waste. I feel that it is important that we wait until all phases of our work are complete so that we can consolidate the information obtained and concepts developed into a logical cohesive unit.

QUESTION

Could GAO develop some guidelines that this Committee could utilize in evaluating an agency's request for Audit and Investigative resources in relation to the size and severity of the task they face?

ANSWER

It would be possible to develop some guidelines for use in evaluating an agency's request for Audit and Investigative resources in relation to the size and severity of the task it faces. In fact, we have recommended that the Office of Management and Budget prepare these guidelines.

Over the past several years, GAO has prepared many reports which have addressed audit operations within several Federal departments and agencies. I feel that the information presented in these reports would provide Committee members with a breakdown of the general areas needed to be considered in evaluating requests for resources.

QUESTION

In your testimony, you mention that Agencies have not recognized the potential for fraud that is introduced by increased use of computers in Federal programs. What is GAO doing regarding this problem?

ANSWER

GAO has pointed out the potential for fraud that is introduced by the increased use of computers in Federal programs in a number of publications. The first of these was our Computer-Related Crimes Report (FGMSD-76-27, April 27, 1976). This report, which was distributed widely throughout the Executive Branch, categorized the computer-related crimes discovered to that time within the Federal Government, and discussed appropriate counter measures to minimize recurrences of such crimes. Such counter measures included effective auditing of computer-based systems by the various agencies' internal audit groups.

In 1977, we issued the report "Computer Auditing in the Executive Branch - Not Enough is Being Done" (FGMSD-77-82, September 28, 1977). This report was also widely distributed throughout the Federal Government, and pointed out - inter alia - that internal auditors should be reviewing computer systems to assess whether

"adequate manual and automated controls exist over the input and processing data."

A well-controlled system is obviously less susceptible to fraudulent activities than one which is not well-controlled.

Last year we issued, with an effective date of January 1, 1980, additional GAO audit standards applicable to auditing computer-based systems.

GAO-promulgated audit standards apply to audits of Government organizations, programs, activities and functions. They have been widely accepted, and under the Inspector General Act of 1978 (P.L. 95-452), their use is mandatory (Section 4(b)(1) and 4(b)(3)). These additional standards point out specific areas which must be addressed if the standards are to be met. Quoting from the closing section, "Tests For Control Weaknesses";

"*** the auditor must be alert to the possibility of fraud or other irregularities in computer systems. Although auditing for fraud is usually not the primary objective of audits, the detection of fraud should be a general audit objective."

Over 20,000 copies of the additional standards have been distributed to date.

Our work in computer auditing has led to development of a specific course on controls in computer systems which our own auditors are applying in their work.

HOTLINE CALL PROCEDURE

Mr. STAATS. Mr. Chairman, we are working hard on this report, and we expect to have something on all 5,000 of these cases analyzed by approximately June.

Senator YOUNG. In your cases with the Department of Defense, who do you notify when you find something wrong? I haven't been notified about anything, and I am ranking Republican on the Subcommittee on Defense.

Mr. EGAN. Senator Young, if you are referring to our hotline calls, we have a referral system worked out with each Inspector General as well as other Federal agencies, including the Department of Defense. First, we screen it to see if there is any substance, and further screen it and send it to regional offices. Then we refer it to the specific Federal agency. We have one contact point with the Department of Defense to whom we refer the cases. Rather than getting together with all the agencies in the Department, we work with the one contact point in the Department of Defense who receives our allegations. We have an arrangement with DOD under which each allegation is referred back to us in 60 days to let us know what's being done about the allegation.

I don't know why you are not hearing from them. But I am sure they will be glad to give you information regarding it.

Mr. STAATS. We can give you a summary of all cases regarding the Department of Defense and what we have done about them.

Senator YOUNG. I would like you to have more contact with the members of the Appropriations Committee, especially the Subcommittee on Defense, and our staff members.

QUESTIONS SUBMITTED BY SENATOR LEAHY

Senator MAGNUSON. We have some other questions from Senator Leahy that we will submit for the record.

[The questions and responses follow:]

Questions Submitted by Senator Leahy

QUESTION

This Committee is seriously concerned about evaluating the effectiveness of programs, and controlling waste, fraud, and abuse in Government activities. Even though this Committee does not act upon the entire budget, it must make judgements based upon as good a knowledge as possible about what the agencies are doing. Yet no one really knows about all the individual programs the Government operates and, accordingly, this Committee cannot, by itself, provide effective consideration.

(a) The statutes give clear direction and authority to GAO to act as the eyes and ears of Congress. What initiatives does GAO plan to take to help this Committee meet its goal of monitoring the Government's activities?

(b) The public expects the Comptroller General of the United States to act on his own initiative, free from political influence and strategem, to look into matters of concern. Do you think you are fulfilling these expectations well, and if not, how can this Committee help you to address the problems of uncontrolled programs?

ANSWER

(a) Because all of GAO's responsibilities flow from its enabling legislation and subsequent laws passed by the Congress, all of its work is, in effect, directed toward assisting the Congress. During fiscal year 1979, we issued 983 reports on audits or special studies. About 70 percent of these were submitted to the Congress or to its committees and members. In addition, copies of many of the 299 reports addressed to Federal agency officials were also provided to interested committees and members. Many of these reports recommend congressional or agency actions necessary to correct problems or improve Federal programs and activities.

In addition, the Comptroller General and his principal assistants testified before congressional committees on 188 occasions during fiscal year 1979. This compares to 164 in fiscal year 1978, and only 24 in fiscal year 1969. Such an increase recognizes our growing ability and capacity

to serve the Congress on critical issues, investigations, or pending legislation. Our professional staff also brief congressional committees, members, and their staffs on GAO work of interest to them. These briefings include the results of completed or ongoing work which has progressed far enough to provide meaningful information. We also provide committees with questions for use during hearings.

Two special reports to the Congress prepared annually - one on civil, the other on defense activities - highlight matters deserving special congressional attention. Each January these special reports summarize important GAO conclusions and recommendations on which satisfactory department or agency actions have not been taken and which, therefore, should be considered during the appropriation process.

(b) GAO is unquestionably an independent organization which acts on its own initiative, free from political influence and strategem. In all of our work, whether it is self-initiated or performed at the request of congressional committees and members of Congress, the eventual scopes of the reviews, methodologies employed in conducting the work, and conclusions and recommendations made are determined solely by our staff based only on the facts obtained during the review.

GAO does not have authority to direct agencies to accept recommendations for strengthening uncontrolled programs. The extent to which we are successful in bringing about improvements depends basically on the persuasiveness of our findings and recommendations and the support our reports receive from the Congress.

QUESTION

The Government contracts for goods and services in amounts estimated to exceed $100 billion a year. Many procurement actions are non-competitive in nature. Though non-competitive contracts are not abusive or wasteful per se, the potential for this in these cases is much greater than in normal free competition.

It is disturbing to know that many existing contracts are modified, often significantly, rather than initiating a new procurement action.

These modifications to existing contracts may not always be the most direct, efficient, or "good-Government" way of doing business in my opinion. I am afraid that this happens all too often.

(a) Can you suggest an oversight mechanism that this Committee can use in order to bring more control and sunshine to these type actions?

(b) Specifically, would you consider it appropriate, on administrative and Constitutional grounds, for this Committee to require its approval of modifications to existing hardware and software contracts? This would apply when they breech certain threshold amounts, and perhaps a mechanism should be used similar to the reprogramming process built into the Defense Appropriations acts.

(c) Can the Federal Procurement Data System help in identifying and uncovering the potential problems in this area?

ANSWER

GAO has long advocated the use of competitive methods of procurement. A major portion of Government procurement, however, is still placed on a sole-source basis. For example, over 64 percent of the fiscal year 1979 Department of Defense procurement was non-competitive and an additional 9 percent was placed on the basis of technical or design competition with little consideration of price. We believe that the Committee should closely monitor the situation to try to stimulate the agencies to make progress in increasing competition in their procurement programs. Initial contract awards are probably more important than contract modifications in that such awards frequently "lock in" sole sources for major follow-on procurements.

The Federal Procurement Data System can be used to identify the extent of non-competitive contract awards and contract modifications. Any significant increases should be closely monitored and explained. We think this method of control would be preferable to requiring Committee approval of specific contract modifications.

QUESTION

Almost 40 percent of the Government's accounting systems are unapproved by GAO. In addition to the incredible mismanagement that must result from this,

(a) What is the potential for fraud and illegality as a result of this state of poor accounting?

(b) Can GAO identify one particular agency that seems to have the most accounting difficulties?

(c) What steps are being taken to speed up the approval process?

ANSWER

(a) The potential for fraud and illegality in an unapproved accounting system is greater than in an approved system. One of the areas we examine before approving a system is the area of internal controls. While the design of an accounting system in and of itself cannot prevent fraud, fraud is much less likely to occur in a system that has tight internal controls than in a system where they are lacking or are inadequate.

(b) More than half the Federal Budget is accounted for in unapproved systems of the Departments of Defense and Health, Education and Welfare.

(c) The General Accounting Office can approve an accounting system only (1) when an agency submits it to us and (2) when the design submitted meets our requirements. We have tried for a number of years to persuade agencies to qualify and submit their accounting systems to us for approval. We have had a goal to try to get all unapproved systems submitted to us by the end of 1980. More recently, the Office of Management and Budget has been meeting with the heads of departments and agencies to urge them to get their accounting systems approved.

QUESTION

A recent report of the Joint Financial Management Improvement Program recommended as an aid to Government auditors that the Government establish a single collection point for information on grants made by the Government. The Office of Management and Budget is presently establishing the Federal Award Information System.

(a) Does GAO feel that this system will prove useful for the purposes of Government auditors?

(b) What steps should be taken, in your opinion, to make the system more useful for financial management and audit compliance purposes?

ANSWER

In its "Report on Audit of Federally-Assisted Programs: A New Emphasis" (February 1979) the staff of the Joint Financial Management Improvement Program Audit Improvement Project recommended (recommendation 7, pg. 48) * * * "that OMB establish a system for identifying where and by whom grant funds are being administered." The team made this recommendation because there is no location within the Federal Government where program managers and auditors can identify the Federal funds awarded to grant recipients. Thus auditors have no source to determine whether they have identified all the grantees or accounted for all Federal funds awarded to a given grant recipient.

The General Accounting Office, as a member of the Joint Financial Management Improvement Program, supports this recommendation. We, in fact, made a similar recommendation to the Office of Management and Budget in our report "Grant Auditing: A Maze of Inconsistency, Gaps, and Duplication that Needs Overhauling" (FGMSD-79-37, June 15, 1979).

The Office of Management and Budget has designed a system to accumulate information on grants awarded by Federal agencies and plans to implement it in the next fiscal year. It is also working with selected States to get them to accumulate information on grant funds they pass on to subgrantees. As expected, there will initially be some voids in the information Federal agencies can provide. The Office of Management and Budget plans to work with agencies that presently are not, or have difficulty, capturing the necessary information.

Just how good and useful this system will be remains to be seen. We have not audited it, but from what we know of the design, the system should be superior to what presently exists.

EFFECT OF WORKLOAD ON INSPECTORS GENERAL

Senator MAGNUSON. Do the Inspectors General ever complain to you as they complain to us that they don't have enough help to follow up these cases?

Mr. STAATS. Yes, we hear that from the Inspectors General, and as a result we issued a report to Congress on what happened to the budget request of the Inspectors General. We reported on what actions were taken by the agencies and what actions were taken by Office of Management and Budget and the Congress. As a result of our report, Office of Management and Budget has increased the 1981 budget recommendations for the Inspectors General in a number of agencies.

Senator MAGNUSON. The offices are comparatively new, and we have been adding to the appropriation a little bit every year. Senator Sasser and Senator Eagleton have been very interested in that.

Mr. STAATS. It is true, Mr. Chairman, that the legislation is new. Each of these agencies had investigative and auditing staffs even before the legislation. The legislation strengthened their role and gave them additional responsibility. But I think it is fair to say that historically the Inspector General function and audit function in the agencies have not received the support within the agencies or within the OMB that we think they should have had. I think as a result of our report OMB has done a substantial amount in terms of trying to recommend additional staff for these offices. But there is some validity to the complaints we get from the auditing and investigative staffs of the agencies.

QUESTIONS SUBMITTED BY SENATOR SCHWEIKER

Senator YOUNG. Mr. Chairman, Senator Schweiker has some questions he would like to have answered for the record.

[The questions and responses follow:]

Question. In light of the dismal record of Pennsylvania, Illinois, Massachusetts, and several other States in computerizing their medicaid systems, do you feel that present fiscal incentives to computerize need to be augmented with tough sanctions for failure to computerize in order to speed computerization in the laggard States?

Answer. Our main concern is that States properly process medicaid claims and do so economically and efficiently. Therefore, we have recommended that the congress amend the medicaid law to provide that Federal sharing in State administration costs be based on State performance.[1] If a State can effectively and economically meet performance standards with a manual claims processing system, such a system would be acceptable. However, we believe that most States would have to computerize their claims processing systems in order to meet performance standards. The Senate has passed as an amendment to the Adoption Assistance and Child Welfare Act of 1979, H.R. 3434, a provision proposed by Senator Schweiker which would implement our recommendation. H.R. 3434 was with a conference committee as of March 17, 1980.

Question. In a report which GAO did at my request back in September, you stated that Pennsylvania needs a computerized Medicaid Management Information System, or MMIS, in order to detect fraud, waste, and abuse in the State's medicaid program. Do you feel that other States, especially the larger States, must install computerized medicaid systems if they are to achieve the 4-percent error rate mandated by the Michel amendment?

[1] See report "Attainable Benefits of the Medicaid Management Information System Are Not Being Realized," HRD-78-151, September 26, 1978.

Answer. The amendment calls for the States to reduce their eligibility determination error rates to 4 percent or suffer a reduction in Federal sharing. MMIS does not play a role in eligibility determinations. Its eligibility subsystem merely obtains data on who has been determined eligible for medicaid and then checks claims against this data. Therefore, an MMIS would not help States meet the 4-percent ineligibility error rate goal. However, computer-assisted eligibility determination systems could help the States meet the goal.

CONTROLS IN AGENCIES

Senator MAGNUSON. Well, I am interested in this auditing business, because this is not closing the barn door after the horse is gone. They are going to have to shape up and sharpen their pencils. It's not so much the agencies here, but it's the regional agencies where a lot of this happens, too. They either don't get word down or they are lax in their auditing and things of that type.

Mr. STAATS. There just hasn't been enough attention given to the need for establishing controls in these agencies. For example, the case cited by Senator Ribicoff in the Congressional Record on February 21 is a case in point. In this case a woman in Social Security with two accomplices had gotten away with $500,000 in disability payments because she was able to work through the computer. We think that there is a lot that needs to be done, for example, in building controls into the computers so they cannot be manipulated in that way. We have made a recommendation to this effect, but the agency has not recognized this as a potential source of serious fraud until very recently.

COMMUNICATION WITH APPROPRIATIONS COMMITTEES

Senator MAGNUSON. I am also concerned about communication with the Appropriations Committee and the chairmen of the subcommittees, particularly in the Senate, from you people as this study goes on. We don't want you to wait until you come up with your final conclusions. Just tell us ahead of time where you think we can do some good, because we are marking up the appropriations bills very shortly, and we want to join with you in doing something about this problem of fraud and waste. I think the main thing is to follow through.

Mr. STAATS. Mr. Chairman, I am glad you raised this question, because we are anxious to be sure that each of the subcommittees, both the House and Senate, have the advantage of findings that we have made in all of our work. I have sent to you a summary listing all the recommendations that we have made in the last year which we think might be of some value to you as you go through the questioning during appropriations hearings.

Just last week we went through the President's budget where he has made recommendations for savings through legislative action, and we have provided the Congress with the GAO reports which bear on those recommendations. We are anxious to get our materials to you and in a form which is most usable to you in any way we can.

Senator MAGNUSON. I have no further questions now, but we are going to ask you a lot later. This hearing lays the foundation. I think we have an understanding of what the Appropriations Committee is trying to do and what you are trying to do and maybe we can get together and be more effective.

Senator SASSER. Mr. Staats, we appreciate your appearing here this morning and you and your associates giving us your views.

SAVINGS RESULTING FROM GAO WORK

I might say that I want to commend the General Accounting Office for the work it is doing. I looked into the figures the other day that indicated the General Accounting Office saves 10 times its annual appropriation.

Mr. STAATS. In the last 3 years, it has been 20 times. The 10 times goes back to the time before the Inspectors General. In the last 3 years the savings have been 20 times.

Senator SASSER. I want to commend you on the work.

Mr. STAATS. I wanted it to sound as good as we can make it.

TRAVEL CUTBACK

Senator SASSER. Thank you very much for appearing this morning. I have a question which I will submit for response in the record.

[The question and response follows:]

Question. Mr. Staats, your staff has been looking into the implemention of this $500 million travel cutback. Do you have anything to add to Mr. White's comments?

Answer. At the present time, we have nothing to add to Mr. White's comments.

OFFICE OF MANAGEMENT AND BUDGET

STATEMENT OF JOHN P. WHITE, DEPUTY DIRECTOR

PREPARED STATEMENT

Senator SASSER. Our next witness is Mr. John P. White, Deputy Director of the Office of Management and Budget.

Mr. White, you may proceed. I think you have a prepared statement.

Mr. WHITE. I have a prepared statement, Mr. Chairman, and I also have a brief oral statement. I would suggest, if I may, that I submit my prepared statement and read the brief oral statement.

Senator SASSER. The prepared statement will be incorporated in the record, and you may proceed with your oral statement.

[The statement follows:]

STATEMENT OF JOHN P. WHITE

I am pleased to have this opportunity to review for you this Administration's many efforts to deal with the problems of fraud, waste, and error in federal programs and activities. I would like to begin by briefly describing the context within which these activities are taking place.

President Carter has made a commitment to the American people to make the Federal Government work better. Our anti-fraud and waste activities are an important element along with related positive management improvement efforts to help turn the President's commitment -- which we all share -- into more efficient and effective service to the public.

Fulfilling that commitment won't be easy. We are entering the 1980's faced with very basic challenges:

- We are confronted with growing public dissatisfaction and confusion with the size, performance, and, in some cases, the basic role of government -- the dissatisfaction is only compounded by indications of fraud and waste.

- We are going to have to meet continuing strong public expectations for more services with resources which will become increasingly limited -- this makes fraud and waste in government programs intolerable.

To meet these challenges, we have undertaken a government-wide program of specific management improvement projects. Zero-base budgeting, improving financial management systems, and our anti-fraud and waste programs are basic to our efforts. This program, if aggressively pursued, can help us meet public expectations for a well-run, responsive, and effective government.

As we face these challenges it is important to keep the three elements of fraud, waste, and error in perspective -- each is a different problem. Because of the notoriety attendant to allegations of fraud, there is sometimes a tendency to emphasize this problem at the expense of paying adequate attention to even greater drains on government efficiency and effectiveness -- waste and error. Fraud is certainly a problem -- but it is one we are capable of handling.

One of our important themes has been to emphasize the significance of waste and error as well as fraud, and not allow the more dramatic to blind us to the detailed and long term work necessary to eliminate waste.

It is within this context that we have acted aggressively since the passage of the Inspector General Act to support both the Inspector General program and government-wide efforts to combat fraud, waste, and error.

The Administration's Commitment and Involvement

From the outset, President Carter campaigned on a platform that stressed the need for assuring integrity, efficiency, and effectiveness in the Government's programs. When he took office, he found that there was not enough attention being paid to basic management controls and procedures. The Comptroller General's various published findings and revelations of alleged corruption in GSA served to pinpoint specific instances of what the Administration had discovered to be a major problem.

The President decided to address the issue of fraud and waste directly. The enactment of the Inspector General Act provided a major opportunity. The President was determined to make the Inspector General legislation a success and secure its implementation in as many Executive Branch processes as possible, including the resource allocation

decisions made in the budget process. He took a number of steps in the following months, each designed to signal to the agencies his continuing sponsorship of governmentwide efforts to combat fraud and waste and improve management practices. I would like to spend just a few minutes recounting them for you.

- In November 1978 in his first communication to the affected department and agency heads on implementation of the Inspector General Act, President Carter stated: "One of the highest priorities of my Administration is the detection and prevention of fraud, waste, and inefficiency in the operation of Federal programs." He went on to emphasize that he was taking ". . . very seriously our obligation to conduct the public's business with the utmost integrity."

- In December 1978 he communicated to the heads of all departments and agencies, saying "Today, I am directing that significant features of the Inspector General program be extended throughout the Federal Government. Eliminating waste, fraud, and error should be as important to you as your program objectives." The agency heads were not asked to appoint Inspectors General, but were asked to designate a single official, accountable directly to them, to oversee their agencies' efforts to eliminate waste, fraud, and error.

- At the same time that the President was pressing the Inspector General program, he was calling on the agency heads to improve their audit systems, particularly as they related to grant programs.

- In May 1979 he took two additional, major actions in creating the Executive Group to Combat Fraud and Waste in Government and the President's Management Improvement Council.

The Executive Group to Combat Fraud and Waste is an inter-agency mechanism designed to marshal government-wide support for the Inspector General program and other efforts to combat fraud and waste. Attorney General Civiletti serves as chairman of the Executive Group. I serve as the vice-chairman. The Group's membership includes all of the statutory Inspectors General, the Deputy Director of the Office of Personnel Management, and the Special Counsel of the Merit Systems Protection Board. The Federal Bureau of Investigation, Internal Revenue Service, and Postal Inspection Service are also represented.

The importance of the Executive Group is reflected in the continuing involvement of the principals, including the Attorney General, in its activities.

Until now the main efforts of the Group have been aimed at developing more effective procedures and better trained personnel to deal with fraud and waste, and dealing with problems that go beyond the capacity of individual agencies by sharing the expertise of all the agencies. Among other efforts the Group has organized successful orientation sessions for the Inspectors General; is supporting inter-agency Inspector General initiatives such as GSA's audit of furniture management and control practices; and is providing IG-level advice to the Department of Education team developing the Inspector General office for that new

department. Committees, each chaired by an Inspector General, are focusing on training, staffing, management and organization; legislative and regulatory issues; audit and information system concerns; and enforcement. OMB and Justice staff are working directly on each of the committees, as well as providing staff support for the Group as a whole.

The Executive Group has generated an effective communications network among the Inspectors General: the IGs now get together regularly for working luncheons, have organized and conducted a conference at the FBI Academy in Quantico, Virginia, and have discovered the value of sharing ideas and problems with each other on a regular basis.

The President's Management Improvement Council complements the activities of the Executive Group by identifying critical management problems in the agencies and bringing together private and public sector experts to develop solutions to them.

The Council is co-chaired by the Directors of the Office of Personnel Management and OMB. It is composed of representatives of government agencies, business, and academic life and is intended to further the government-wide management improvements envisioned in the Civil Service Reform Act. It is working closely with the Comptroller General, agency Inspectors General, and agency management officials. Major projects are underway in health care financing, debt collection, travel management, and the management of the Immigration and Naturalization Service, each representing an area with significant potential for abuse.

OMB's Role

I would now like to turn to OMB's central role in fulfilling the President's commitment to combat fraud, waste, and error. At OMB we have overseen the effective activation of the various Offices of Inspector General. Our involvement

over the past year has ranged from calling for and providing guidance on individual agency Inspector General implementation plans to collaborating with the Attorney General in developing the Executive Group to Combat Fraud and Waste in Government. Let me describe some of the steps we have taken:

- o IG Implementation Plans

  To begin to meet the President's directive that we assure quick and efficient establishment of the new Inspector General offices, we asked each of the agencies identified in the Inspector General Act to prepare a comprehensive Implementation Plan, containing charter statements for the new offices (addressing mission and objectives, authority, and organization); resource analyses (covering budget, staffing, and external support); vulnerability assessments (in which the agencies identified programs and activities with the greatest potential vulnerability to fraud and waste); and specific audit and investigation plans for the year. We then provided guidance to the IG agencies for improving Inspector General program plans and operations, with specific comments tailored to each agency's plan for the then newly confirmed Inspector General's consideration. At that time we also provided the Inspectors General with summaries of the resources identified for IG activities by all of the statutory Inspector General agencies so that they could judge their own activities in a government-wide context.

- o Whistleblower Hotlines

  Another early step that we took to support the Inspector General program was to suggest that the IG agencies establish "whistleblowers" hotlines for use by agency employees, as distinguished from the GAO hotline for

the general public opened at about the same time. These well publicized, dedicated telephone lines provide a system for implementing the provision of the Act allowing employees to complain to the Inspectors General with assurance of confidentiality and protection from reprisals. Our suggestion was advanced in January 1979 and all of the statutory IG agencies operate such hotlines today. A joint review by the Inspector General is now in progress to assess their effectiveness.

The Inspectors General in the Budget Process

OMB continues to support the Inspector General program. We have established a specific focal point on the management staff to work closely with the Inspectors General and to assist them as well as assure continuing overview. However, when most people think about OMB support for a program, they think in terms of resources--of dollars and positions. They want to know how the program fared in the budget process.

This year, as part of our effort to assure effective implementation of the Inspector General program, we paid special attention to the Inspectors General throughout the fiscal year 1981 budget process. We built into the process an Inspector General Resources Review that included a government-wide overview by our management staff as well as special individual analyses in each Inspector General agency by our budget examiners.

Early in this year's budget process, the budget guidance letters from OMB to each agency having a statutory Inspector General noted: "The President has asked that you make a special review of the resources supporting your office of Inspector General. Within the planning ceiling provided, and in the context of your department (agency)-wide ranking in the

zero-base budget process, the adequacy of Inspector General program support should be considered thoroughly."

OMB examiners addressed the Inspector General resources issue in individual agency hearings and prepared a special analysis in each case. These were specifically addressed in the final Director's Review sessions. Finally an across-the-board analysis was done by our management staff.

The result of this extensive special review was inclusion in the President's Budget of overall increases totaling almost 12 percent in fiscal year 1981 budget authority and almost 5 percent in the number of positions over fiscal year 1980 for the statutory Inspector General agencies. This translates into $246.9 million and 5,917 positions--a clear demonstration of the President's support for the Inspector General program in a very tight budget year.

I would like to provide for the record, Mr. Chairman, a table that summarizes agency by agency how the Inspectors General have fared in this year's budget. We believe the Inspectors General will now have sufficient resources to conduct their operations successfully.

Further Steps

We are taking additional steps to bring the Inspectors General and fraud and waste initiatives into the mainstream of agency management. The President has repeatedly emphasized the importance he places on this. We communicate it to agency managers at every opportunity. For example, at our recent Second Annual Management Conference, co-sponsored by OMB, the General Services Administration, and the Office of Personnel Management, both panel and continuing group discussions on fraud and waste were organized for over 500 top Federal agency managers. One of the major themes of the Conference was the issue of management control of fraud and abuse. The issue

was highlighted in an OMB-moderated panel discussion involving Inspectors General. It was emphasized throughout the conference in continuing small group discussions, each one lead by an Inspector General. During the course of the conference all of the participating agency managers were involved in these discussions.

Financial Priorities Program

In addition to the Inspector General program, this Administration has taken a number of steps to strengthen the Government's audit and investigative capacity. For example, last May we announced the launching of a Financial Priorities Program aimed at resolving the major financial issues facing Government today.

When this program began, agency financial systems had many weaknesses. There were reports of major breakdowns in fund control, with millions of dollars being overobligated. Audit reports citing billions of dollars in questioned costs were going unresolved, sometimes for years. Hundreds of millions in unspent grant funds were being retained by recipients. Cash management practices and debt collection practices were very poor.

The program is designed to direct top management attention to needed improvements in agency financial systems. The priorities were worked out by OMB in consultation with the Congress, the Comptroller General, and the agencies. The priorities that were approved by this group focus on:

- Accounting systems: The goal of this effort is to obtain General Accounting Office approval of all accounting systems.
- Internal control: The program will upgrade control systems to reduce the risk of fraud, abuse, waste and inefficiency.

- Cash management: The program will build upon the work of the President's Cash Management Porject.

- Audit follow-up: The purpose of work in this area will be to resolve audit findings promptly and properly.

- Outlay estimating: The program will seek to improve accuracy and timeliness in estimating outlays.

- Debt collection: The program will encourage proper accounting, and prompt aggressive debt collection.

- Overtime: Accurate accounting, and tighter control of overtime are the objectives in this area.

- Grant financing: The program will try to increase the use of letters-of-credit and electronic funds transfer, and recover unspent funds.

- Grant accountability: The program will seek the full implementation of cost principles and standard administrative requirements.

During the past months, the Comptroller General, Director McIntyre and I have met with Cabinet members and heads of major agencies to discuss this program. We have obtained commitments from the agencies to move aggressively to correct deficiences. In addition, this program is fully integrated with our regular budget review process. For example, we held a Spring Planning Review on the program, had our examiners follow up with questions during budget hearings, asked for reports on progress in Bulletin 80-1, and made appropriate reference to priority issues in our allowance letters to the agencies. The letters called for further follow up by OMB during this year's Spring planning process.

Some accomplishments highlighted in this year's budget include:

-- Cash management savings of over $1 billion a year.
-- The backlog of unresolved audit findings have been reduced substantially.
-- Outlay shortfall was not a problem this year. 1979 spending was only a few tenths of a billion off from last January's estimates.
-- Letters of credit are now used to finance over $100 billion a year in Federal aid.
-- Grant accountability Circulars have been reviewed to implement the single audit concept, incorporate a standard audit guide, assign lead audit agencies, and identify major audit compliance features.

Despite these successes, a few areas addressed by the Program will need special attention this year.

-- Progress has not been satisfactory in getting GAO approval of accounting systems. Our review shows that less then 50% of Federal spending is accounted for through approved systems. We are now looking at ways to accelerate agency efforts and streamline the approval process.
-- Internal control systems need to be strengthened to insure that fraud and waste are prevented. We plan to issue agency guidance in this area. We will be consulting the GAO, the agencies, and with you and your staff to determine the specific guidance that would be most useful.
-- By Summer we expect the work of the Debt Collection Task Force to be complete. Work is underway now with all agencies that have significant receivables. This work will result in marked progress next year in debt collection.

Finally, we plan to continue using the budget review process to evaluate agency performance and problems. We will work with individual agencies to keep this program on track.

Prognosis for the Future

During the first full year since enactment of the Inspector General Act, as the examples I have mentioned illustrate, we have taken concrete steps to emphasize the importance of the Inspector General program and assure its effective implementation. During this time the Inspectors General have spent a good deal of their effort on necessary start-up activities: getting organized, recruiting and staffing, planning, training, and creating interagency communications and coordination mechanisms. They have also made considerable progress on substantive, programmatic fronts, as--I believe you will agree--is reflected in the individual Inspectors General semi-annual reports submitted to the Congress.

The Inspector General concept clearly has the potential to make a significant contribution to honesty, integrity, and efficiency in the Federal Government's programs. The Inspector General reality is showing progress in this direction. We will continue to stay actively involved in this effort--and we will continue to be supportive.

In his State of the Union message, the President stated that "we have vigorously implemented the Inspector General legislation. Our prognosis is that the Inspector General program will increasingly contribute to efficient and effective operation of Federal programs--and that we will make real progress in the fight against fraud and waste.

At the same time, we have made significant progress in both the Financial Priorities Program and other management improvement efforts. We will continue to press forward in the Financial

Priorities Program, particularly in the areas of GAO approval of accounting systems, internal control systems, and debt collection. We will continue to monitor agency progress in this program and will evaluate it as an integral part of our budget review.

Our management improvement activities will continue as major OMB priorities. Working with the President's Management Improvement Council, we anticipate significant progress on the specific projects underway. We expect the coming year to result in tangible improvements in the way the Federal Government conducts business.

Thank you, Mr. Chairman and members of the Committee. I would be pleased to answer any questions you might have.

PRESIDENTIAL COMMITMENT TO MAKE FEDERAL GOVERNMENT WORK BETTER

Mr. WHITE. Mr. Chairman, I am pleased to have this opportunity to review for you the administration's many efforts to deal with the problems of fraud, waste, and error in Federal programs and activities. I would like to begin by briefly describing the context within which these activities are taking place.

President Carter has made a commitment to the American people to make the Federal Government work better. Our antifraud and waste activities, along with related management improvement efforts, are designed to turn the President's commitment—which we all share—into more efficient and effective service to the public.

Fulfilling that commitment will not be easy. We are entering the 1980's faced with very basic challenges:

We are confronted with growing public dissatisfaction with the size, performance, and, in some cases, the basic role of Government.

We are going to have to meet continuing strong public expectations for more services with resources which will become increasingly limited.

MANAGEMENT IMPROVEMENT PROJECTS

Obviously we cannot tolerate fraud, waste, and error when faced with these demands. Therefore, we have undertaken a governmentwide program of specific management improvement projects. Zero-base budgeting, improving financial management systems, and our antifraud and waste programs are basic to that effort.

From the onset, President Carter campaigned on a platform that stressed the need for assuring integrity, efficiency, and effectiveness in the Government's programs. When he took office, he found that there was not enough attention being paid to basic management controls and procedures.

The President addressed the issue of fraud and waste directly. The enactment of the Inspector General Act provided a major opportunity. The President is determined to make the Inspector General legislation a success and implement it in as many Executive branch processes as possible, including the resource allocation decisions made in the budget process.

INVOLVEMENT OF OMB IN PRESIDENTIAL COMMITMENT

OMB has a central role in delivering performance by the agencies in fulfilling the President's commitment to combat fraud, waste, and error. Our involvement over the past year has ranged from calling for and providing guidance on individual agency Inspector General implementation plans, to encouraging establishment of employee whistleblower hotlines, to collaborating with the Attorney General in developing the Executive Group to Combat Fraud and Waste in Government as an effective mechanism to deal with interagency and governmentwide fraud and waste problems.

In addition, as part of our effort to assure effective implementation of the Inspector General program, we paid special attention to the Inspectors General throughout the fiscal year 1981 budget process. We built into the process an Inspector General resources review that included a governmentwide overview by our management staff as well as special individual analyses in each Inspector General agency by our budget examiners.

The result was overall increases totaling almost 12 percent in fiscal year 1981 budget authority and almost 5 percent in the number of positions over fiscal year 1980 for the statutory Inspector General agencies. This translates into $246.9 million and 5,917 positions—a clear demonstration of the President's support for the Inspector General program in a very tight budget year.

I would like to provide for the record, Mr. Chairman, a table which summarizes the budgets of the Inspectors General agency by agency. We believe the Inspectors General will now have sufficient resources to conduct their operations successfully.

Senator MAGNUSON. The table will be inserted in the record at this point.

[The table follows:]

INSPECTOR GENERAL RESOURCES IN PRESIDENT'S FISCAL YEAR 1981 BUDGET

[In millions of dollars]

Department/Agency	Dollars	Positions (PFT)
Agriculture	38.6	935
Commerce	10.0	273
Energy	6.2	155
(HEW)	(47.7)	(1,362)
HHS	[1] 38.3	1,087
Education	9.4	275
HUD	19.1	553
Interior	8.8	204
Labor	38.2	487
Transportation	21.7	488
CSA	2.4	71

INSPECTOR GENERAL RESOURCES IN PRESIDENT'S FISCAL YEAR 1981 BUDGET—Con.

[In millions of dollars]

Department/Agency	Dollars	Positions (PFT)
EPA	10.0	156
GSA	21.9	613
NASA	4.7	114
SBA	5.2	144
VA	12.4	362
Totals	246.9	5,917

[1] Plus $23.8 for State medicaid fraud units.

INSPECTOR GENERAL ACT PROGRESS

Mr. WHITE. During the first full year since enactment of the Inspector General Act, the Inspectors General have spent a good deal of their effort on necessary startup activities: getting organized, recruiting and staffing, planning, training, and creating interagency communications and coordination mechanisms. They have also made considerable progress on substantive, programmatic fronts, as—I believe you will agree—is reflected in the individual Inspectors General semiannual reports submitted to the Congress.

We coordinate and support the work of the Inspectors General through the Executive Group to Combat Fraud and Waste in Government. Attorney General Civiletti serves as chairman of this group, and I am vice chairman. All of the Inspectors General are included in this working group which is focused on resolving mutual problems and directing our resources to priority issues.

The Inspector General program clearly is making a significant contribution to honesty, integrity, and efficiency in the Federal Government's program.

MANAGEMENT IMPROVEMENT STEPS

In addition to the Inspector General program, the administration has taken a number of steps to strengthen the Government's audit and investigative capacity. For example, last May we announced the launching of a financial priorities planning program aimed at resolving the major financial issues facing Government today. The program directs top management attention to needed improvements in agency financial systems. The priorities were worked out by OMB in consultation with the Congress, the Comptroller General, and the agencies. My written statement details the current status of this program.

Many of the problems identified through the Inspector General program require substantial management improvement efforts. Therefore, the President has established a Management Improvement Council, chaired by the Directors of OMB and the Office of Personnel Management, and made up of senior executives of both Government and the private sector. It assists the Federal agencies in solving their management problems. This council enables us to call on assistance from private sector expertise when appropriate.

We are enthusiastic about the Inspector General program, and these

other efforts to make the Federal Government work better. There is a great deal to do but I believe that we are making significant progress.

Thank you, Mr. Chairman. I would be pleased to answer any questions.

AGENCY PLANS TO ELIMINATE WASTE

Senator MAGNUSON. I just want to ask you a few questions and then submit some others to be answered for the record.

In November and December of 1978, the President requested the heads of each agency to submit to the Office of Management and Budget a comprehensive plan for eliminating waste, fraud, abuse, and error from their programs. Did all of the agencies comply with the request by the January 31, 1979 deadline?

Mr. WHITE. Yes, they did. All of the major Departments and agencies complied and we have all those reports, Mr. Chairman.

Senator MAGNUSON. Who, in the Office of Management and Budget, is responsible for reviewing their plans?

Mr. WHITE. The Director takes an active role, as do I, and Wayne Granquist is directly responsible.

Senator MAGNUSON. Can you give us an idea of what criteria you use to review them generally?

Mr. WHITE. We went through an extensive set of issues, Mr. Chairman, particularly with respect to risk assessment: we asked where the agencies thought there were serious problems and what were their implementation plans for dealing with the problems. Each of the agencies has since developed implementing plans. The agencies looked at major priority programs for potential fraud and analyzed whether the program's safeguards prevent that abuse. There is a range of these kinds of activities underway.

Senator MAGNUSON. Were the agencies including the Inspector General in their plans?

Mr. WHITE. Yes. The Inspectors General are a critical part of that effort.

OVERVIEW MECHANISMS

Senator MAGNUSON. What mechanism does OMB use to make sure these plans are being implemented?

Mr. WHITE. There are several. First, as I said, I sit with the Attorney General on the overview executive group at which we review the activities of the agencies. Second, we have made it a specific responsibility of our management group to identify particular problems in the agencies. Third, we have made it a specific responsibility of our budget examiners as they review the budget each year to look directly at these problems and report on them during the budget review process.

Senator MAGNUSON. GAO has indicated a need to increase the staffs of the Inspectors General. Does OMB's analysis of the agency plans indicate such needs? Are they pleading for more staff?

Mr. WHITE. As you know, Mr. Chairman, practically everyone pleads for more staff. We have had extensive increases in the staffing of these agencies in the last few years, including increases in the 1981 budget in resources and people.

Senator MAGNUSON. Well, the present budget, I think, helps the Inspectors General.

Mr. WHITE. Yes, it does.

Senator MAGNUSON. Can we get that figure for the record?

Mr. WHITE. I will provide that figure.

[The information follows:]

INSPECTOR GENERAL PROGRAM DOLLARS FISCAL YEARS 1980–81

[In millions of dollars]

Department/Agency	Fiscal year 1980 dollars	Fiscal year 1981 dollars	Difference	
			Dollars	Percent
Agriculture	$36.2	$38.6	+$2.4	7.2
Commerce	5.9	10.0	+4.1	69.5
Energy	6.1	6.2	+0.1	1.6
HEW:				
HHS	41.2	38.3	+2.0	4.4
Education	4.5	9.4	+2.0	4.4
HUD	16.3	19.1	+2.8	1.7
Interior	7.7	8.8	+1.1	14.3
Labor	33.0	38.2	+5.2	15.8
Transportation	20.2	21.7	+1.5	7.4
CSA	2.2	2.4	+0.2	9.1
EPA	9.5	10.0	+0.5	5.3
GSA	18.3	21.9	+3.6	19.7
NASA	3.4	4.7	+1.3	38.2
SBA	4.9	5.2	+0.3	6.1
VA	11.6	12.4	+0.8	6.9
Total	221.0	246.9	+25.9	11.7

INSPECTOR GENERAL PROGRAM POSITONS FISCAL YEARS 1980–81

Department/Agency	Fiscal year 1980 positons	Fiscal year 1981 positions	Difference	
			Number	Percent
Agriculture	930	935	+0.5	0.5
Commerce	193	273	+80.0	41.4
Energy	155	155	.....	.....
(HEW)	(1,337)	(1,362)	(+25.0)	(1.9)
HHS	1,062	1,087	+25.0	2.4
Education	275	275	.....	.....
HUD	488	553	+65.0	13.3
Interior	177	204	+27.0	15.2
Labor	487	487	.....	.....
Transportation	488	488	.....	.....
CSA	61	71	+10.0	16.4
EPA	153	156	+0.3	2.0
GSA	588	613	+25.0	4.2
NASA	86	114	+28.0	32.6
SBA	139	144	+0.5	3.6
VA	358	362	+0.4	1.1
Total	5,640	5,917	+277.0	4.9

FOLLOWUP ACTIVITIES

Senator MAGNUSON. I have some other questions but I will submit them for the record.

I think the problem before us here—and a question the Appropriations Committee members have—is what are you doing in the job of following up? You do the job of referral and that is fine. But there seems to be a general lack of followup.

I know OMB is pretty busy down there these days, but there is a tendency to simply refer cases or suggest there be some corrective action taken to solve them; then you just go about your business. Even if you try and follow up, you don't report to us. I think we have to bridge that gap somewhere.

Mr. WHITE. I think that is a fair comment, Mr. Chairman. I think there are basically three ways in which we are following up. The executive group, which I mentioned earlier, plays a large part in oversight and supervision of followup activities. The presence of the Attorney General on the executive group, the composition of its committees, and the nature of the reports it issues enhance followup performance.

Second, we have a financial priorities program which focuses on resolving major financial issues facing the Government. A key set of priorities has been submitted to the departments and agencies, deadlines are being set, and agency performance is continually reviewed to assure that specific schedules are met. We are continually meeting with the agencies in followup on those specific schedules.

Senator MAGNUSON. Well, if we find a specific case and get hold of you people, there may be followup involving a particular agency. But I am talking about overall.

Mr. WHITE. I know you are, Mr. Chairman, and that is the key point. Overall continuing review must be done.

Senator MAGNUSON. And there needs to be followup in the General Accouting Office, too.

Mr. WHITE. Yes, sir, that is correct.

WHISTLEBLOWER HOTLINES

Senator MAGNUSON. Just quickly, in 1979, Mr. McIntyre suggested all Federal agencies establish whistleblower hotlines so Federal employees could make reports. How many calls have you received on the whistleblower hotlines?

Mr. WHITE. We have two separate systems. The GAO maintains a system of an open hotline for the general public. The other system, situated in the agencies, specifically targets Federal employees. On this latter system, we have received 2,400 phone calls.

Senator MAGNUSON. Has any significant recovery of money been made?

Mr. WHITE. We have a significant number of those calls that are followed up on, a significant number where, in fact, the hotline provides us with information. Some 37 percent of the calls involved allegation of noncriminal misconduct. Another 22 percent concerned allegations with respect to general management. And about three-

quarters of all the calls were referred for further investigation. About 24 percent of the complaints have developed into full investigation, but as of now none has resulted in any legal action.

Senator MAGNUSON. Do you have any suggestions about what Congress should do about that?

Mr. WHITE. Not in this area, Mr. Chairman, I think the hotlines have——

Senator MAGNUSON. No, I meant the whole situation.

Mr. WHITE. Not any more than is being done presently. We have an excellent opportunity on this score. It really has been a team effort and we will continue to report to you. I think the most important thing the Congress can do is what you mentioned, to continue to ask for our updated report so we know you are going to continue to be interested in our progress.

Senator MAGNUSON. Senator Sasser.

TRAVEL REDUCTIONS

Senator SASSER. Thank you, Mr. Chairman.

Mr. White, last year I proposed and supported legislation designed to reduce by $500 million the amount which may be used for travel and transportation in the Federal Government. The distinguished chairman of this committee, Mr. Magnuson, was a cosponsor of this legislation and was outspoken in his support in committee markups. The President signed the legislation into law October 12, 1979, and OMB has subsequently issued implementing instructions. Of course, the thrust of this legislation was to curtail unnecessary travel expenses on the part of the Federal Government, and also to generally hold down travel costs. What I want to know, Mr. White, is just how successful has OMB been in implementing this provision of the law?

Mr. WHITE. I believe we have been totally successful; that is, we have conducted an assessment of how to make that cut. We have assigned those cuts to the agencies. The agencies have appealed the cuts in various ways. We assigned the reduction with enough leeway so that we could give some back if there was a valid reason. I went through and approved agency by agency, or didn't approve, the recommendations of the staff with respect to that. We have finalized that activity and passed it back to the agency.

Senator SASSER. Let me just give you some examples of travel activities, Mr. White, that are still occurring.

For example, the Department of Agriculture continues to hold meetings and conferences outside of the Washington, D.C., area, meetings that are attended primarily by Washington employees.

More specifically, the Agriculture Department hosted a meeting in Frederick, Md., for 4 days, January 15 through 18 of 1980, for 44 employees. Of those 44 employees, 42 of them were from Washington, who lived in Washington or worked in Washington.

In another case, the Department of Agriculture hosted a meeting in Frederick, Md., January 25 to 28, 1980, for 28 employees. All but four employees were from the Washington area.

In both cases holding these meetings in the Washington area would

have resulted in substantial savings to the Government and the taxpayers by eliminating the cost of lodging and transportation for the Washington employees. Over $7,000 could have been saved.

LODGING COSTS

Now that is disturbing enough. But in addition, the lodging costs for these meetings, some $8,500, have not been reported as travel costs because the rooms were purchased under contract and therefore charged against "other services" rather than "travel." So here we are trying to curb excessive and unnecessary travel and it looks like some folks are trying to find a way to get around that.

Let me just give you some other examples. In one case a Forest Service geologist from Bend, Oreg., attended in Hawaii a "field study of volcanic activity on Hawaii to provide upper division students with training in geology."

In another case, a geneticist attended a training session in "International Maize and Wheat Improvement Workshop in Mexico City, Mexico."

Mr. White, I question, and I suspect my colleagues here question, whether such trips as those are necessary to meet the mission objectives of the U.S. Forest Service. If the agencies persist in engaging in what we consider to be instances of questionable or excessive travel, it seems to me we have two choices. We can throw up our hands or we can persevere and enact tough controls so we can make this $500 million cut effective.

NATIONAL ARCHIVES AND RECORDS SERVICE CONFERENCE

Let me give you another example. A GAO study found in 1979, the year in which the Carter administration admirably ordered a 20-percent reduction in administrative travel, that the National Archives and Records Service in GSA approved the attendance, at Government expense, of 33 Washington area employees at the Society of American Archivists Conference in Chicago. Rather than a reduction, this figure of 33 going to this conference in Chicago represented an increase of 8 people over the number of employees who attended the same conference in 1978 prior to the administration's seeking a 20-percent reduction in travel costs. GAO also noted that most of the attendees spoke at only one session at the conference. The majority stayed for the entire conference, thus incurring additional costs to the Government.

DEPARTMENT OF AGRICULTURE MEETING

Going back to the meetings that the Department of Agriculture held in Frederick, Md., one where they had 44 employees there, 42 of them living right here in Washington where the meeting could be held here, I am looking at the invoice on the conference, rental of a conference room and facilities and lodging at the Saratoga Inn in Frederick, Md., for a management training conference of USDA employees, unit price $5,298. Why in the world couldn't that conference have been held right here at the USDA building in Washington, D.C.? Lodgings for the

USDA employees was $33 per night, plus 5 percent tax, for five nights. Evening meals—this is for the meeting of January 15–18—for 53 people at $9.15 a meal was $467.50; noon meal, at $9.15 a meal, for 53 people, $467.50.

REDUCTIONS OF TRAVEL COSTS

Mr. White, I know that Office of Management and Budget is just as worried and concerned about this as we are here in the Congress, and just as concerned as the chairman and I are about these things. The question comes what are we going to do about it? Do you have any comments on it?

Mr. WHITE. Well, I think the kinds of things that the administration has done and the Congress have done make a difference in this regard, Mr. Sasser. The President's fuel conservation initiatives directed at the Federal Government have added impetus to energy saving efforts in Federal travel. I'm sure you will agree this is another element of this problem—that people should not travel unnecessarily.

Finally, we are putting increasing attention on these issues, and will continue to do so. I think it is just a matter of continuing to show an interest and focus on the problem.

Senator SASSER. Well, we are determined to get a handle on this and determined to cut down on what we consider to be excessive travel costs and consider to be travel really at the taxpayers' expense. The chairman has indicated that he is going to continue to push on this, and with his support we can do something about it, I think, over here in the Congress. We are going to keep the pressure on. With the General Accounting Office doing their good work and keeping an eye on it, we are going to continue to expose what we consider to be abuses until we can get them stopped.

Thank you, Mr. White.

Senator MAGNUSON. And we cut the travel amount last year.

Mr. WHITE. Yes, sir, I recognize that.

Senator SASSER. With your support, Mr. Chairman, we cut it $500 million last year.

Senator MAGNUSON. I could give you the same story on consultants as the distinguished Senator from Tennessee gave you on travel. We cut spending for consultants plenty—$150 million in fact—but I don't think that's enough.

Well, the hour is getting late, Mr. Staats and Dr. White, I want to thank you both for being here. Your testimony regarding action being taken by your respective agencies in order to deal with the problem is somewhat encouraging.

Senator SASSER. Mr. Chairman, may I interrupt? I have additional questions for the record I would like to submit.

WIDESPREAD LOSSES THROUGH FRAUD

Senator MAGNUSON. I think, however, it is painfully clear we have a long ways to go and we still don't know the true magnitude of dollar losses through fraud, waste, abuse, and error—particularly waste—in the Federal programs. But the General Accounting Office overview study

and the hotline results described here today indicate that these problems are still very widespread.

Obviously there are still weaknesses in management's internal controls which are making all this fraud, waste, and abuse possible. They must be identified and corrected. The fact that investigations have still not been completed on so many of the allegations; that the General Accounting Office's overall study of the hotline indicates such a high proportion of those closed showed no action taken; and that, even where fraud was confessed, the action taken against individuals involved often amounted to little more than a slap on the wrist—all of this still suggests that we need to have more concern on the part of program managers over these problems. I believe our citizens who are being squeezed unmercifully by inflation and taxes deserve to have a dollar's worth for a dollar spent. That doesn't leave room for abuses.

I hope this hearing will serve as a springboard for all appropriations subcommittees which delve into these problems with respect to particular agencies and budget requests. I also hope we can close the gap between the agencies and the subcommittees.

Mr. WHITE. I agree totally, Mr. Chairman.

QUESTIONS SUBMITTED FOR THE RECORD

Senator MAGNUSON. I have some questions which I will submit to be answered for the record.

[The questions and responses follow:]

Questions Submitted by Senator Magnuson

In November and December of 1978 the President requested the head of each agency to submit to OMB a comprehensive plan for eliminating Waste, Fraud and Error from their programs.

Q. Do you think this allowed them sufficient time to come up with a realistic plan to deal with a problem of this magnitude?

A. Yes. The November request was made of the twelve agencies named in the Inspector General Act of 1978. It was designed to ensure a well-coordinated effort to establish the new IG offices, to direct early attention to the important new function. It required a comprehensive IG Act implementation plan. We worked closely with the agencies in developing these plans. The plans were intended to be preliminary in nature, basically a starting point from which the new IGs would begin to develop their programs.

The December request went to the agencies not covered by the IG Act. It required much more limited planning by those agencies: basically identification of a responsible individual, a resource summary, and a brief description of the agency's approach to using its audit and investigative resources.

The agencies had sufficient time to meet the objectives of both the November and December requests.

Q. What criteria did OMB use to determine whether the plans were adequate to meet the stated objective of eliminating waste, fraud and error from the programs involved?

and

To the extent that the plans were not found to be satisfactory, did OMB make specific suggestions to bring them up to snuff?

A. Both OMB and the Department of Justice reviewed the plans prepared by the IG and non-IG agencies. We reviewed the plans for the following: (1) effectiveness of IG/agency working relationships, (2) clarity of goals and priorities, (3) program balance between audit and investigative activities, (4) adequacy of vulnerability assessments and stated priorities among identified vulnerable programs, (5) relationship of agency plans to IG Act requirements, and (6) adequacy of estimates of resources needed to conduct specific audits and investigations.

On April 20, 1979, Director McIntyre sent a memo to the heads of the IG agencies transmitting the results of our review and suggestions for improvements. On June 28, 1979, I sent a similar memo to non-IG agencies. We have provided copies of both of these memos to the Committee.

Q. Did OMB do any follow-up to determine whether its suggestions were followed?

A. Yes. As part of the FY 1981 budget process we conducted a special review of Inspector General resource allocation. As part of this review our budget examiners used our review of IG plans to develop follow-up questions for the IGs.

Q. How did OMB go about determining whether an agency's existing and planned audit and investigative resources were adequate to carry out the projected plan?

A. Part of the overall review of the IG implementation plans was an assessment by our budget examiners of the resources summarized in the plans. In addition, as I have mentioned above, we conducted a special analysis of IG resources as part of the FY 1981 budget process. This included special attention to IG issues during the major annual budget process milestones of Spring Preview, budget hearings, written analyses by our budget examiners, Director's Review, and a government-wide summary report by our management staff.

Q. For Fiscal Year 1981 did all Inspector Generals receive a net increase in authorized positions?

A. The tables we have provided to the Committee show IG position increases in the FY 1981 budget. Eleven of the IG agencies received position increases over FY 1980 levels totalling 277 positions. Between FY 1979 and FY 1981, all IGs received position increases totalling 1,011 positions or almost a 21% increase.

Q. Aside from the numbers of positions available, did OMB make any effort to evaluate the capabilities of the audit and investigative staffs to deal with complex schemes involving fraud and waste, such as computer fraud?

A. Yes. We have worked closely with the Training, Staffing, Management, and Organization Committee of the Executive Group to Combat Fraud and Waste in Government to identify training needs in this area. Among the documents we have provided to the Committee staff is a January 1979 report titled "Improving Audit and Investigative Training -- A Plan for Government-wide Action." We also participated in a series of IG orientation sessions and conferences addressing this issue. In March 1980 the Office of Personnel Management completed a report for the Executive Group's training committee titled "Report on the Training Needs of Auditors and Investigators in the Offices of Inspector General." Follow-up efforts with this report are now underway.

Q. Did OMB evaluate the agency plans in terms of their effectiveness in anticipating and preventing fraud rather than simply detecting it afterward?

A. Yes. A major part of the IG implementation plans dealt with assessments of program vulnerability to fraud and waste. This section emphasized problem anticipation and prevention considerations as well as detection. Our memos to the agencies following our review of their plans also emphasized this, noting that there was a tendency on many of the plans for investigation functions to be "reactive" and that the IGs

should consider the possibility and value of a positive "preventive" approach.

Q. GAO in testifying before this Committee indicated that the agency vulnerability assessments they reviewed were not done in enough depth to be effective. What was OMB's evaluation of these vulnerability assessments?

A. In our review memos to the agencies we stated that the IGs "should give additional attention to agency vulnerability assessments to identify and array areas of vulnerability by priority. Many of the current vulnerability assessments can be strengthened by specifically identifying those programs that are most vulnerable, why they are vulnerable, and what should be done to correct the problems." As the IGs' semi-annual reports to the Congress note, the IGs are continuing to emphasize and strengthen their efforts at vulnerability assessment.

Q. OMB advised certain agencies that their vulnerability assessments could be strengthened in certain ways. What has OMB done to determine whether these actions were taken?

A. We have continued to work closely with the Inspectors General and to monitor their activities both through the semi-annual reports to the Congress, the frequent meetings of the Executive Group, and the budget process. During the budget process review the examiners took into account the vulnerability assessment issue, questioned agencies on their approaches, and offered some suggestions where further attention to vulnerability assessment seemed to be needed.

In February 1979, Mr. McIntyre suggested that all Federal agencies establish "whistleblower hotlines" so that Federal employees could make reports on suspected fraud and waste within their agencies without fear of reprisal.

Q. Did all agencies establish such hotlines?

A. All agencies with statutory Inspectors General have established hotlines.

Q. How many calls have been received on these hotlines to date?

A. Through September 30, 1979, there have been 2,400 calls on the agency hotlines.

Q. How many of these calls had enough substance that they were investigated?

A. To illustrate the nature of calls received and the resulting Inspector General action, the semi-annual report of the Department of Agriculture reveals that of the first 240 complaints received and reviewed: the largest group (37 percent) involved allegations of noncriminal misconduct of persons and irregular personnel practices, the next largest category (22 percent) concerned allegations of general mismanagement. Approximately three-quarters of the complaints received were referred for further investigation; the remainder were resolved in the initial interview by the complaint investigation staff. In HUD, on the other hand, 79 percent of the calls received were found to be non-substantive; the remaining 21 percent were found to be valid and were referred for further investigation.

Q. In how many cases did a hotline call result in the discovery of significant fraud, waste, or error?

A. As an example of the discovery of significant fraud, waste, and error from hotline calls, the Department of Agriculture reported that approximately 10 percent of the complaints received by the Inspectors General had developed into full investigations, but that none of those had resulted in legal or administrative action as of September 30, 1979.

Q. Could you give us some examples?

A. As an example of the types of waste and error identified by hotline calls, HUD reported that agency management was required to take corrective action such as assuring that construction deficiencies were corrected; requiring local agency personnel to improve management practices; and debarring a landlord from future participation in HUD programs. In other examples found in the semi-annual reports, the Veterans Administration reported that as a result of hotline calls: the Chief of Pharmacy at a field station confessed to dispensing drugs without prescriptions and that patient abuse by a VA medical center police officer was verified.

Q. How many cases have been referred to the Department of Justice and with what results?

A. The hotline activity of the agency IGs is still developing so that as of the latest semi-annual reports (September 30, 1979), there is no record of cases from hotlines being referred to the Justice Department.

Q. What has OMB done to evaluate the effectiveness of the agencies' follow-ups on these whistleblower allegations?

A. The Executive Group to Combat Fraud and Waste, which is co-chaired by OMB, has completed a summary of the hotline activity during the first few months of operations (a copy of that summary was provided to the Committee). OMB will continue to work within the context of the Executive Group in any evaluations of agency follow-ups to hotline allegations. (The summary appears in the material submitted subsequent to the hearing.)

Q. Have you found significant differences among agencies in terms of the number of hotline allegations not investigated or dismissed as being without substance after investigation?

A. There are no significant differences among the agencies as reported in the Executive Group summary of hotline activity or in the semi-annual reports.

Q. Have any significant recoveries of money been made as a result of the whistleblower hotlines?

A. As of the latest semi-annual reports, no significant recoveries of money have been attributed to the whistleblower hotlines.

Q. What is OMB doing to assure not only that those who are caught defrauding the Government receive appropriate punishment but that the weaknesses which made the fraud possible are corrected?

A. From the inception of the IG program, OMB has emphasized the importance of the vulnerability assessments and attention to prevention of fraud and abuse in programs. The IGs have similarly placed emphasis on ensuring that fraud and waste are minimized, and that the opportunities for perpetrating a fraud or committing errors are reduced by improved program design and management safeguards. OMB, in conjunction with the IGs and OPM, brought this concern to the attention of senior managers at a recent Government-wide management conference. The efforts of the Executive Group to address common problems, and the work of the IGs independently should help ensure that the weaknesses in programs are corrected.

Q. How accurate is the estimate that fraud and waste in government cost somewhere between $2.5 and $25 billion annually? Does OMB have its own estimate?

A. The estimate of between $2.5 and $25 billion in government fraud and waste was given by then Deputy Attorney Civiletti last year. The wide range of that estimate is indicative of the many caveats which should be placed on any estimate of government fraud and abuse. For example, it has been estimated that if the Social Security program was run at ninety-nine percent efficiency there would still be room for $1 billion in waste. During the period from March 1979 to September 1979, the IGs identified almost $2 billion in audit exceptions. The final findings of the IGs will provide a more accurate estimate of the extent of fraud and waste in government programs. OMB is not attempting to make its own estimate.

Q. Does OMB believe that efforts by agencies to uncover fraud and correct problems that allowed it to occur are adequate? What more should be done?

A. The Inspector General program has the potential of adequately addressing the problems of fraud and waste in the government. It is too early to judge the success of that program -- some of the IG operations have been in existence less than one year. The continuing interest and support of the Congress and the Executive Branch should help to ensure that reality.

Q. Is OMB working with GAO to find which agencies, programs and areas are most vulnerable to fraud? Is that information then shared with the agencies themselves? Does OMB follow up to make sure the weakness is corrected?

A. On December 31, 1978, the President sent a memorandum on fraud and abuse to the heads of executive departments and agencies. He asked each agency to send a report by January 31, 1979, detailing a planned approach for preventing and dealing with these problems. While this was only a preliminary step, it

started a ground up approach in each department and agency to problems with fraud and abuse.

Our view is that better internal control is a key to resolving problems with fraud and abuse. OMB has made improving internal controls one of nine priorities under the Financial Priorities Program announced in May of last year. These priorities were selected in consultation with the Comptroller General. Since last May OMB and GAO have met with the heads of each of the major Departments and agencies and their staffs to discuss agency actions under the program. This past fall, agencies reported these efforts under this program. Their reports were reviewed as part of the Fall Budget Process. OMB is now working to issue a Circular to establish standards for agency internal control systems. Such standards have already been published in the area of fund control.

The GAO during its review of agency systems is monitoring agency progress under the program and is advising OMB of any needed action.

In addition, the GAO has been invited to attend meetings of the Executive Group to Combat Fraud and Waste where there are additional exchanges of information and perspective on agency efforts to combat vulnerability.

Q. GAO indicated that there is a lack of management concern about fraud in government. What should be done to correct the problem?

A. The Inspector General program is a relatively new effort by the Executive Branch to combat fraud and waste in government. The newness of that program does not, however, indicate that there is a lack of concern on the part of federal managers about fraud. Within the past year there has been increased attention to the Inspector General effort: the Assistant Secretaries for Management discussed the program at meetings last summer and fall, the government-wide Managers' Conference at Cherry Hill, N. J., in early 1980 had a separate discussion track on the Inspector General program; OMB has encouraged top management attention to the effort to combat fraud and waste by requiring a separate resource analysis of the IGs' activities; and our Intergovernmental Affairs Division is working to develop effective communication between the IGs and the Federal Executive Boards and Federal Regional Councils. Continued attention to the program will increase managers' awareness and support for the effort.

Q. You indicate in your testimony that the Executive Group to Combat Fraud and Waste is improving communication, cooperation, training, and so on in the fight against fraud. What tangible impact has that group had on cutting fraud and waste?

A. It is too early to measure quantifiable impacts of the work of the Executive Group. At this point we can cite the many ongoing initiatives of the Group that eventually will be measurable in the results of individual IG operations. In November 1979, the Group sponsored a conference of the Inspectors General

at Quantico, Virginia, where the Inspectors General and some of their senior staff discussed implementation of the Act, heard presentations on the budget process from staff at OMB and both the Senate Budget Committee and the House Appropriations Committee, discussed liaison with Justice, and heard presentations by the IG committees on legislation, enforcement, audit, and training, staffing, management and organization.

The Executive Group has provided comments on subpoena guidelines developed by the Department of Justice, has addressed questions on direct hiring authority for the Inspectors General, is developing a summary of the IG semi-annual reports, and has provided advice to the Department of Education transition team in establishing the Inspector General for that new department.

Under the auspices of the Executive Group, the Inspectors General most recently participated in the Federal Managers' Conference at Cherry Hill, New Jersey. Several of the Inspectors General participated in a panel discussion on the management control of fraud and abuse and later met with discussion leaders on "fraud and abuse" issues.

The Executive Group has also established committees to concentrate on specific issues of concern to the Inspectors General.

For example, the Training, Staffing, Management and Organization Committee which is chaired by Inspector General Dempsey of HUD has sponsored a five day session of all auditors and investigators from all the IG agencies to assess training requirements for career auditors and investigators. The results of that session will be used to design career training requirements. The same committee has reviewed IG needs concerning criminal or administrative investigators to combat fraud and other white-collar crime. The committee has also reviewed staffing and organizational patterns in the Inspectors General and has begun work on developing performance standards which would be applicable to all IG organizations.

The Audit and Systems Committee, chaired by Inspector General Reynolds at VA, has addressed the training of auditors in the state-of-the art in computer security and has cooperated with the President's Management Improvement Council on collection and recording of debts to make the Inspectors General aware of the special emphasis in this area. This committee has also worked with OMB staff on single audit concepts and setting up pilot projects to test that concept.

Inspector General McBride, at the Group's request, has identified a series of joint efforts in which the Inspectors General are either already involved or may become involved. Among these are efforts such as computer match programs between VA and HEW and VA and DOD, loan-matching programs between SBA and USDA on disaster loans, and the development of interagency information sharing on mortgage brokers, realtors, appraisers, etc. working with HUD, USDA, SBA programs. Another significant joint effort is that led by Inspector General Muellenberg to conduct an interagency audit on furniture management.

Mr. Muellenberg also chairs the Enforcement Committee of the Executive Group which has addressed issues such as record retention, a network for common IG legal problems, and possible problems with criminal referrals.

The Legislation and Congressional Relations Committee chaired by Inspector General Bass has set up and utilized comment procedures on new legislation.

Q. Although you refer to OMB efforts to reduce unresolved audits, GAO indicates that many such audits it brought up in a 1978 report are still pending. What has OMB's efforts to resolve this problem done so far? Why are so many audits still unresolved, particularly those pointed out by GAO? What more should be done to break up the logjam of unresolved audits?

A. Based upon reports of agency actions obtained in January 1979 and again in November 1979 we believe there has been a substantial improvement government-wide in the situation originally reported by GAO. Most of the agencies have revised their systems to correct the deficiencies originally reported. A few agencies, the major one being the Department of Defense, will bring revised systems on line during 1980.

We recognize that a number of cases reported by GAO may still be open because of appeals, litigation, etc. However, we will continue to monitor this area under our Financial Priorities Program. Based on agency goals reported to us under this program, we anticipate significant improvements in fiscal year 1980.

Q. What specifically should the Appropriations Committee do to make sure that money appropriated for federal programs is not lost through fraud and waste?

A. The continued interest in and support by the Appropriations Committee in the Inspector General program will make a significant difference in whether the IG program succeeds with the implications that success has for reducing fraud and waste in federal operations.

Q. According to GAO, agencies have closed out 800 of about 3500 hotline calls that have been referred from the GAO hotline. Is OMB doing an analysis of how promptly those calls are handled by agencies and why such a large number of calls are pending?

A. In its report on hotline activity thru September 15, 1979, the Executive Group to Combat Fraud and Waste identified 859 referrals from the GAO to the Inspectors General. The largest percentage of these referrals are being handled by the agencies as part of their own hotline programs, thus the disposition of calls from the GAO have not been separated for analysis by the OMB. It may be too early in the administration of the hotline activities to conduct such an analysis.

Q. GAO said that "Federal headquarters, regional offices, and other field locations and grantees have inadequate internal controls over their operations." Is OMB working with GAO in determining which agencies have the worst problems? What specifically are you doing to push agencies to correct those problems?

A. GAO has a number of reviews underway. They have found a large number of cases of fraud and related types of illegal acts alleged against 21 major agencies in the 2 1/2 years ending March 31, 1979. GAO established a Special Task force for the Prevention of Fraud and Abuse.

Our view is that better internal control is a key to resolving agency problems of fraud and abuse. OMB has made improving internal controls a major priority under the Financial Priorities Program announced in May of last year. This past fall, agencies reported their efforts under this program. Their reports were reviewed as part of the Fall Budget Process and, OMB is now working to issue a Circular to establish standards for agency internal control systems. Such standards have already been published in the area of fund control.

CONCLUDING QUESTIONS

Mr. White, you have told us about several efforts to reduce fraud and waste in Government. Yet despite those efforts, we hear more allegations of wrongdoing every time we turn around. We hear the (1) audits amounting to millions of dollars are still unresolved, months after they first came up; (2) we see slaps on the wrist instead of real punishment; (3) we keep reading about Federal programs that allow millions of dollars every year to slip through the crack; (4) we hear about Federal Managers who don't care about stopping fraud.

Q. When are we going to see concrete proof that fraud and waste are on the decline?

What specifically should be done in the Departments or the Courts or the Congress to see some real reduction?

Should the Justice Department or the Agencies be pushing harder to uncover problems or obtain convictions?

A. Progress is certainly being made in the fight against fraud and waste in Federal government programs. I believe evidence of this is already beginning to appear in the semi-annual reports that the Inspectors General submit to the Congress: for the six month period ending September 30, 1977, the IGs have reported $2 billion in audit exceptions and an additional $35.5 million identified by investigators. Further, over 1300 cases were referred to the Department of Justice, resulting in over 800 indictments and more than 600 convictions. I believe that these figures indicate strong and continuing efforts on the part of both the Department of Justice and the IG agencies to uncover problems and obtain convictions. These efforts should, of course, continue to be pursued aggressively, and all current indications form the departments and agencies are that this will be the case.

The Congress can also continue to be very helpful in the fight against fraud and waste in government programs. It can continue to be supportive of department and agency efforts through oversight hearings and authorization and appropriations activities. It can continue to focus attention on the issues of fraud and waste. It can consider IG semi-annual report recommendations for ideas on legislative needs. It can move expeditiously on pending related legislation such as the False Claims Act (S 1981) and amendments to the Intergovernmental Cooperation Act of 1968 concerning uniform audit requirements. With this type of support we believe that clear progress in the fight against fraud and waste will become increasingly evident.

Questions Submitted by Senator Sasser

Q. If this type of travel is still taking place even after a $500 million travel cut in fiscal year 1980, perhaps we need to look at a further $500 million cut for fiscal year 1981. Would you care to comment, Mr. White?

A. Questions about the appropriateness of specific trips and travel incidents, of course, are best answered by the involved departments or agencies since they are responsible for approving and disapproving specific individual expenditures of travel funds. We believe that a general cut in travel funds, such as the $500 million reduction for FY 1980, while certainly effective in limiting overall travel, does not automatically eliminate the possibility that specific incidents of questionable travel might occur. Rather, management in each agency must exercise its authority and judgment to assure that only appropriate and necessary travel is approved. A further across-the-board travel reduction in FY 1981, in our opinion, would not deal with this issue.

Q. Mr. White, on December 4, 1978, Comptroller General Staats appeared before the Legislative Branch Subcommittee.

In the course of that hearing, Mr. Staats revealed that the auditors at the various Federal agencies had written up 16,305 audit reports questioning the validity of $4.3 billion in Federal expenditures.

All 16,305 audit reports were unresolved at the time of the December 4, 1978 hearing--even though they were prepared prior to March 31, 1977.

On February 7, 1979, I followed up on the December 4, 1978 hearing with questions posed to OMB Director McIntyre. At that time, Mr. McIntyre outlined the steps the Administration was in the process of implementing to get these 16,305 audit reports resolved. To his credit, Mr. McIntyre felt the situation was intolerable and has worked diligently to get it corrected.

On December 3, 1979, OMB issued a new Circular A-73, designed to get a handle on this.

Mr. White, can you tell us what has happened to the 16,305 audit reports questioning $4.3 billion in Federal expenditures?

A. We did not track the individual audits reported by GAO. Instead, we required the agencies to revise their systems and report on overdue audits in the aggregate.

Based upon reports of agency actions obtained in January 1979, and again in November 1979, we believe there has been a substantial improvement government-wide in the situation originally reported by GAO. Most of the agencies have revised their systems to correct the deficiencies originally reported. A few agencies, the major one being the Department of Defense, will bring revised systems on line during 1980.

We recognize that a number of cases reported by GAO may still be open because of appeals, litigation, etc. However, we will continue to monitor this area under our Financial Priorities Program. Based on agency goals reported to us under this program, we anticipate dramatic improvements in fiscal year 1980.

Q. Mr. White, the General Accounting Office is currently studying--at my request--the extraordinarily high administrative cost of processing employee travel claims. It runs $450 million a year.

Initial results of the GAO study show two principal methods of reimbursing travel claims:

- The first method is the "High Rate Geographic Area" method. The cost of processing one of these claims is $36.

- At the other end of the spectrum is the "lodgings plus per diem" method. It costs only $20 to process one of these claims.

Now $20 or $36 to process a travel claim doesn't sound like much, but GAO estimates that 15 million travel claims are processed each year. So, we are talking about $300 million at one extreme, versus $540 million at the other--just to process and pay the 15 million annual travel claims.

Now to get to the point! I am apprised that the Administrator of the General Services Administration is planning to issue new regulations regarding enroute travel--that is--those days of an overall trip in which the employee was actually traveling. Under the proposed regulations the cost to process vouchers would be likely to increase dramatically. Mr. White, could you look into this with a view to holding off the issuance of new travel regulations until the GAO report with its recommendations to simplify the process is studied?

A. We have been in touch with GSA regarding the potential increase in the administrative costs of processing travel vouchers under their proposed regulation changes. GSA has informed us that their principal motivation behind those changes is to eliminate excessive reimbursement of travel expenses. The specific change to which

GAO objects is designed to eliminate the reimbursement of meal and lodging costs not incurred by the traveler during enroute travel. This occurs principally on long flights where meal service is provided as part of the air fare and where overnight accommodations are provided by the airline. Although GAO may be correct in projecting an increase in the administrative cost of processing a voucher for one of these trips, they have not compared this increase to the out of pocket reimbursement savings which would be realized.

We understand that GSA is still in the process of finalizing the proposed revisions in their travel regulations. They have assured us that they will consider GAO's concerns before sending those changes out for comment.

Q. For some time,I have been interested in having the Internal Revenue Service offset refunds of debtors who refused to pay the United States amounts they rightfully owe. Last year, I proposed that the Congress fund a test by the IRS to evaluate the cost effectiveness of such a program as recommended by the General Accounting Office in a March 9, 1979 report. I understand that Oregon offsets the tax refunds of delinquent debtors and have asked GAO to look into this program.

Preliminary results of the study indicate that the Oregon Department of Revenue, which is comparable to the IRS, established a debt collection unit in 1971. It is responsible for collecting from delinquent debtors amounts they owe the state. State officials are very pleased with collection by offset. They believe the system is cost effective, and provides due process to debtors. Officials said that the collection unit is collecting amounts that would otherwise be written off. In the last two years, the unit has collected over $3 million by offset. The GAO is continuing its work on this program and will report to me in the future.

Mr. White, perhaps you could share a copy of this testimony today with the IRS and alert them to the impending availability of a report on this matter. I am most concerned about the fact that every year hundreds of millions of dollars due the U. S. Government, that may be collectable through IRS offset, are being lost.

Do you have any comment, Mr. White?

A. OMB's Debt Collection Project, under the sponsorship of the President's Management Improvement Council, is reviewing the credit management and debt collection processes in 23 major Federal departments and agencies. This effectively encompasses over 95 percent of the accounts and loans receivable owed the Government. Our review involves a thorough assessment of the entire process beginning with the policies and procedures for granting credit through the ultimate collection of receivables.

Preliminary findings indicate a wide range of problems in the Government's debt management. These problem areas include the process of screening potential debtors, the terms and conditions under which credit is granted, the accounting and servicing of the outstanding debt, manage-

ment oversight and monitoring of credit activities, and collection and enforcement procedures. The General Accounting Office has raised, to some degree, these problems in various departments and agencies they have reviewed. As you have indicated, the GAO has recommended the offset of delinquent debts against taxpayer refunds as a possible cost effective solution to one of these problems and asked Congress to fund a pilot test with the Internal Revenue Service offsetting delinquent student loans against tax refunds.

We agree with the GAO that the offset of debts against refunds may be one of the solutions we need and the Oregon Department of Revenue experience indicates that such an approach to debt collection is feasible. We feel, however, that moving forward with the GAO recommended test is premature and risky at this time and ask that a decision be deferred until August of this year when we complete our study.

Our principal concern at this point surrounds the condition of the outstanding debts and the accuracy of the accounting records. Our preliminary findings indicate that there is a strong possibility that invalid, inaccurate or incomplete data will be forwarded to IRS for offset against tax refunds. We see the implications of this as presenting us with the potential for a highly burdensome and risky situation. With the exercise of the due process through an advance notice to the alleged debtor, there is likely to be a heavy volume of correspondence that will generate a substantial workload for the IRS and referring agencies. Further, if there is a carry through with an offset of an inaccurate or invalid debt, there could be serious repercussions. All this, in addition to the fact that IRS presently has about $13 billion of outstanding receivables of its own from taxes, interest and penalties to collect within its existing resources, leads us to the need to approach the offset question with caution.

To us a reasonable approach is to devote our energy and resources to an orderly clean up of the entire credit process. Then we could be more confident that accurate and valid debts are referred to the IRS for offset against refunds as a last resort action when all other avenues for collection have been exhausted. This is the direction in which our debt collection project is moving.

Q. As you are aware, Congress in the FY 1980 Continuing Resolution imposed a $500 million reduction in the amount which may be obligated for travel of persons and transportation of things.

--Has OMB established new travel limitations each agency must meet in order to reach the $500 million reduction and, what criteria were used to determine how much each agency must cut from their proposed budget?

A. Yes, OMB established a percentage reduction that each agency had to absorb. Agencies were permitted to apply the overall reduction internally on the basis of their individual priorities.

--Have any agencies been exempted? If so, which ones and for how much?

A. Initially no agencies were exempted from the percentage reduction established by OMB. On the basis of their appeals, the following agencies were exempted from any cuts: Office of the Vice President, the Board for International Broadcasting, the Civil Aeronautics Board, the National Labor Relations Board, the Tennessee Valley Authority, and the Water Resources Council. Despite these exemptions, the $500 million target has been met.

--Have agencies been notified of their new travel limitations?

A. Yes. All agencies have been notified by letter of their travel fund reductions.

--How will OMB monitor agency travel expenses to insure that agencies abide by the ceilings? What actions will OMB take if agencies overrun their budgets?

A. OMB will monitor agency travel expenses through Treasury reports on object class obligations. If there are any overruns, any involved agency will be required to provide a written justification for actions it has taken and plans to take to avoid any future problems.

Q. It has come to our attention that not all travel expenses are included in object classes 21 and 22 - travel of persons and transportation of things. As a result, actual travel costs could be considerably higher than what agencies estimate.

--Under what budget object classes do agencies charge expenses for contracting for reduced room rates for conferences and transporting civilian and military personnel in Government aircraft?

A. Expenses for contracting for rooms for conferences are charged under Object Class 25. Government aircraft are covered as existing equipment under Object Class 31. No further obligations are involved when these aircraft are used to transport civilian and military personnel.

--Did agencies charge the purchase of half-fare airline coupons to Object Class 21?

A. All such purchases should have been charged to Object Class 21.

--Wouldn't it be advisable to revise the OMB directive on object class definitions to include all travel and transportation costs under Object Classes 21 and 22?

A. All travel and transportation costs are under Object Classes 21 and 22.

Questions Submitted by Senator Leahy

Q. This Committee is seriously concerned about identifying cases of abuse, waste or mismanagement in federal activities. The Committee also seriously intends to act to resolve the problems. This will not be an easy task and it will require the cooperation of the Office of Management and Budget, especially with respect to its central coordinating role in the government.

The General Accounting Office has mentioned possible computer

fraud and problems within the agencies' monitoring systems. It also should be clearly recognized that computers and information systems can help in the battle against a government gone out of control. One thing they can do is help to catalogue and track the government's activities.

OMB is beginning to establish a Federal Award Information System which for the first time may collect information about all the government's grants and where they go.

a) Do you feel that this system can prove useful to government auditors who (for example) might need to know about all the grants going to a particular area?

b) What steps are being taken to realize the potential financial oversight uses of the system?

A. Yes, OMB does feel that a complete, accurate system reporting all federal assistance awards would be useful to government auditors and other managers interested in improving financial accountability for federal dollars. At present there is no one place where auditors and program/fiscal managers can obtain uniform assistance award data down to the individual recipient level.

Over the last year, OMB has been testing the practicality of obtaining uniform data on federal assistance awards from existing agency information systems for quarterly, automated reporting to states. Thirteen states and most major federal grant-making agencies are participating in this effort.

The test indicates that most participating federal agencies are able to provide data from their existing systems on awards to primary recipients for many of their assistance programs. OMB is in the process of determining whether to expand the test effort to include data for all federal agency awards to all states and the territories. If a decision is made to proceed, governmentwide/nationwide reporting would begin October 1, 1980, on a phased implementation basis over the next several years.

The test has been conducted in a manner which will ensure all important aspects of data gathering and data uses are explored fully. Reporting instructions have been developed with active involvement of representatives from federal agencies, states, state and local interest groups, and congressional staff. The information is being transmitted and explained to as many potential users as possible (state budget officers, state planners, state legislators, Congress, etc.). We are also attempting to make the existence of the data widely known to top management in the federal agencies.

An expanded data system with reliable, timely, and comprehensive information would be extremely helpful in providing increased oversight of federal funds by agencies, OMB, Congress and the states. We expect to make a decision on this matter in the next few weeks.

Q. Computers and "systems" can be a huge waste of money themselves if they are not put together properly. GAO has estimated that in some agencies the automatic data processing units are only 30-40% efficient. I have heard even lower figures. Besides the potential for waste here alone, it is my opinion that this neglect has done much to contribute to the mismanagement of the government and much to keep the public and Congress in the dark about what is going on.

It is clear that if our systems do not work right, (and GAO has already alluded to this,) then we in Congress may not be getting the right information about what is going on, and certainly the pubic is misinformed.

a) What activities will be undertaken within the new Regulatory and Information Policy Division within OMB to bring about good government information practices and policies which might finally coordinate program and financial management systems with respect to the Congressional and public access rights to the information?

A. There are a number of activities underway in the Office of Regulatory and Information Policy to improve government information practices. For example, in 1978 we issued a policy which requires agencies to establish a management control and certification system to ensure that automated systems are properly designed. We are currently following up with each agency to assure appropriate implementation of this policy. Shortly we will issue a cost recovery policy for Federal computer systems which will make users responsible for both the cost and effectiveness of their systems and thereby create an incentive, through greater accountability, to ensure that automated systems do what they're supposed to. We have made a special effort to identify effective uses of technology and to publicize the existence of effective applications. We have also initiated a number of efforts to improve congressional and public access to Federal information.

Q. For example, will the outlays reporting system (OMB Circular A-84) be disciplined to produce timely and accurate information about where the government spends its money so that the public and congressional users of the report may not be misled?

A. We are continually evaluating the report entitled "Geographic Distribution of Federal Funds." During the past several years we have made a number of modifications in how data is presented to ensure that it is not misleading. In addition we are currently exploring the feasibility of coordinating financial systems used to provide data for this report with those systems used to support the grant notification process.

Questions Submitted by Senator Schweiker

Mr. White, I have introduced a bill, S. 731, that would mandate penalties for states that have not implemented a Medicaid Management Information System (MMIS) by a certain date. Many reports, including several done by GAO, have shown that an effective MMIS can do a good deal to reduce waste, fraud and abuse in Medicaid. My bill is now an amendment to the Child Welfare Amendments of 1979, H.R. 3434, which is in conference. The Administration has never supported this legislation.

Q. Are you aware of the savings that an MMIS can help achieve? If so, why do you oppose this legislation?

In light of the regulations promulgated as the result of the Michel amendment, requiring States to achieve a 4% error date by the end of FY 82, isn't nationwide computerization for all but the smallest States an absolute must? What are you doing to achieve it?

Last year, the Health Care Financing Administration (HCFA) planned to have approved MMIS systems in 33

states by the end of 1979 for a total of 10 new states on board. However, you got only 5. Are you aware of this shortfall and what is your comment about it?

Do you know which ones are the 5 "slow" States and for how many years they and other non-computerized States have been receiving the 90% Federal match for the cost of developing an MMIS?

Isn't it also true that such large Medicaid States as Massachusetts, Illinois, and my own State of Pennsylvania still do not have an MMIS, and that they have slipped on their installation pledges repeatedly?

Why do you oppose this legislation? What are you doing to achieve (nationwide computerization)?

A. We share your views on the importance of adequate MMIS systems in the operation of an effective and efficient Medicaid program, although we believe that fully mechanized systems are not necessarily cost-effective in all circumstances. Nevertheless, we think the penalties involved in the amendment you proposed, elimination of the total Federal administrative match, are too draconian. We are currently encouraging States to develop, implement, and improve MMIS systems in a number of ways:

-- Under current law, we provide a 90% match for the development of such a system and 75% match for its operation, as opposed to the normal 50% match for State administrative expenses.

-- We have been working closely with the States for a number of years to encourage them to develop MMIS systems and to provide those that wish to develop them with technical assistance. A new technical assistance advisory committee was established in the last few months.

-- We have developed, and will be sending to the Congress shortly, legislation that will institute a flexible match, between 50% and 85%, for operation of computerized bill processing and information systems. This flexible match will be based on performance and should assist us in encouraging States to adopt and upgrade mechanized systems.

-- We have instituted a vigorous quality control effort in a variety of areas of the Medicaid program, including eligibility errors, third-party liability, and bill processing errors. This effort will accurately estimate error rates for every State in each of these areas. States that do not meet acceptable standards for eligibility errors will be subject to significant financial penalties under the Michel amendment regulations. These quality control efforts will provide States with additional incentives to develop MMIS systems, since they will now have clear standards by which to judge their administrative performance against the performance of other States.

Q. "Shortfall."

A. In the last 18 months, the number of certified MMIS systems has grown from 15 States to 27 States, plus New York City. The percent of program expenditures covered by MMIS systems has grown from 27% to 64%. The five "slow" States are: Kentucky, Maine, Maryland, Massachusetts, and Mississippi. Kentucky was funded for development from June of 1974 until December of 1979, when it was terminated for noncompletion. Maine has been funded since August 1975 and is now scheduled to be operational in July of 1980. Maryland has been funded since May of 1975 and will be operational in October of 1980. Massachusetts has been funded since August of 1976 and is now developing a new completion schedule with HHS. Mississippi has been funded since October of 1978 and, in spite of disruption of the project by a flood, will be completed in April 1980.

Q. "Large States."

A. You are correct that these States do not have MMIS and that their schedules have slipped repeatedly. Illinois is now scheduled for completion in October 1980 and Pennsylvania in March 1981.

Questions Submitted by Senator Mathias

Q. Last November, newspaper stories and hearings by Congressman Fountain, Chairman of the House Government Operations Subcommittee, disclosed that investigations of check forgeries had been cut to less then one-third of their former levels because of the accumulation of a huge backlog of unworked check cases in the Treasury Department's Division of Check Claims.

The action taken by the affected agencies to correct the above situation and to prevent an occurence?

A. The Department of the Treasury is working on both short-term and long-term goals to address the check claims process. In calendar year 1980, the Department plans to implement an automated financial and accounting reporting system for its accounts receivable in the Division of Check Claims. This system is designed to provide the Department financial control over all of the Division's major accounts receivable.Operationally (i.e. referrals, backlogs, etc.) the Department presently is redesigning and simplifying the workflow and paperwork in the Division of Check Claims. This systemic review is being conducted by key supervisors and employees under the guidance of outside management consultants.

In the long-term, the Check Claims Oversight Group will collect and validate key management information for which the long-term solution can be determined and implemented. Also, the Department plans a new and improved design of the automated check payment and reconciliation system in fiscal year 1981.

Q. Any action taken by OMB to have the affected agencies act promptly and effectively?

A. OMB's Debt Collection Project has requested the Department to rigorously review its backlog of accounts receivable in the Division of Check Claims. OMB also has requested the Department to report on its action plan to address the check claims process. At a minimum, we have asked the Department to include a summary of previous findings and recommendations of prior studies and their current status. We also have asked the department to study alternate means of processing claims (i.e. decentralization, contracting out, sampling of claims).

Q. Just last week a Federal Grand Jury in Baltimore indicted a Social Security Administration employee for allegedly using a computer/fraud scheme to issue at least half a million dollars in disability payments to non-existent beneficiaries. According to the Baltimore Sun a secret service agent in charge of the case stated that the investigation "revealed a lack of checks and balances and controls in Social Security Administration procedures. . . . The potential for abuse and the lack of security safeguards (SSA) are alarming."

The action taken by the affected agencies to correct the abuse situation and to prevent an occurence?

A. In the fall of 1979 SSA conducted a study of the payment system being used by an Office of Disability Operations employee to commit this fraud. The study resulted in recommendations for appropriate safeguards. At the request of the Secret Service, installation of safeguards against this type of fraud was delayed until after the employee had been indicted. A number of these safeguards now are being or have been put into effect.

These short-term safeguards include:

-- enforcing a strict one hundred percent review of all deletion actions which remove a record of payment from the automated system.

-- Having an after the fact review of retroactive payments beyond a certain size made by an employee from a different unit.

-- Improving control over and limiting access to copies of forms used to input payment transactions so that an employee cannot destroy the paper records of an action.

-- Making a computer comparison between the payment record and other files which list the claims taken by district offices, and generating an alert for manual audit if no record of an a claim is found matching the payment being input.

-- Generating a computer alert whenever a name or address change is being input for certain classes of terminated beneficiaries.

Other longer-range potentional safeguards which would require systems changes are being evaluated by the Department.

The Social Security Administration will be providing a detailed report to the House Ways and Means Committee.

Q. Any action taken by OMB to have the affected agencies act promptly and effectively?

A. OMB has continuing oversight responsibility for computer security issues such as those encountered in the Office of Disability Operations at SSA. The ultimate responsibility for ensuring that the problems do not recur, however, rests with the agency itself. Issues such as computer security are being addressed by the Executive Group to Combat Fraud and Waste, and on a policy basis by OMB's Regulatory and Information Policy Division.

CONCLUSION OF HEARING

Senator MAGNUSON. Thank you very much.

[Whereupon, at 12:28 p.m., Wednesday, February 27, the hearing was concluded and the committee was recessed, to reconvene subject to call of the Chair.]

Material Submitted Subsequent to Close of Hearing

[By direction of the chairman, the following material was inserted in the record at this point.]

COMMUNICATIONS FROM SENATOR MAGNUSON

April 29, 1980

The Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office Building
Washington, D.C. 20548

Dear Mr. Staats:

As you know, I am very interested in the efforts underway at GAO to determine the scope of fraud and waste in the federal government. Specific information about where and how fraud occurs is extremely important to the Appropriations Committee.

In light of that, I want to encourage close cooperation and communication between GAO and the Committee as your work on these projects continues. Please keep us advised of your progress and informed of any information which might be useful to the Committee as it marks-up the Fiscal 1981 Appropriations bills. (I expect mark-up to begin around mid- or late May.) The sooner we receive information about specific problems or weaknesses, the sooner we can direct agencies and departments to deal with them.

During the hearing on February 27, 1980 you stated that the analysis of cases in the GAO fraud overview study would be completed by June. Because I believe that information will be extremely useful to the Committee, I would appreciate receiving a briefing on that analysis as soon as it is completed.

In addition, I would like to have a draft of your upcoming report on fraud and abuse -- including any conclusions or recommendations -- as soon as it is available and before the draft is circulated to departments and agencies for comment.

As I mentioned during the hearing on February 27, the Appropriations Committee does not want to wait until GAO has completed its final report in this important area before hearing GAO's tentative conclusions or recommendations. Please keep us informed as you proceed.

Sincerely,

Warren G. Magnuson

WARREN G. MAGNUSON, U.S.S.

61-555 O - 80 - 8

5 May 1980

The Honorable James T. McIntyre, Jr.
The Director
Office of Management and Budget
Executive Office Building
Washington, D. C. 20503

Dear Mr. McIntyre:

I appreciated receiving a copy of your April 18, 1980 Memorandum for Heads of Departments and Agencies on the subject of Improving Internal Controls.

I have been very concerned over the lack of adequate internal controls in many Federal agencies. This problem was identified by Comptroller General Staats in recent hearings before our Committee, which you also quoted, as probably the most important contributing factor to fraud, abuse, waste and error in Federal programs. I am pleased to see that OMB has taken some initiative in seeking to correct this situation.

Would you please provide the Committee with a listing of the 20 agencies whose fund control systems have been approved by OMB, the agencies whose systems are expected to be approved shortly, and those whose systems have not been approved or submitted for approval. I would also like to have the names of all of the agency heads to whom your memorandum was sent.

In addition I would like to have a copy of Bulletin 80-1 and the report on OMB's review of the agency reports submitted thereunder. I find it very disturbing that "very few agencies have comprehensive systems of internal control" and that "the controls required by existing systems may not be properly observed."

I believe that the Appropriations Committee has a right to expect all agencies to have an adequate system of internal controls in order to assure that the funds appropriated to them are not lost through fraud, waste and error or otherwise mis-spent. For this reason, I am requesting that you keep me advised of the results of your ongoing efforts in this area, including the task force referred to in your memorandum.

A prompt response to the above requests will be appreciated so that we may be able to take any appropriate actions required during the mark-up of the Fiscal Year 1981 Appropriations Bills. With best regards, I remain

Sincerely,

Warren G. Magnuson

WARREN G. MAGNUSON
Chairman

APR 18 1980

MEMORANDUM FOR HEADS OF SELECTED DEPARTMENTS AND AGENCIES

SUBJECT: Improving Internal Controls

Last May we launched the Financial Priorities Program to resolve major weaknesses in agency systems of financial management and control.

One of the issues addressed by the program was Internal Control. Our objective was to upgrade internal control systems to reduce the risk of fraud, abuse, waste, and inefficiency. Some progress has been made. For example, using the authority of the Antideficiency Act, we called upon the major departments and agencies to upgrade their fund control systems, and submit them for our approval. Thus far, 20 such systems have been approved, and a number of additional approvals are expected shortly.

In addition, the new Offices of Inspector General in fifteen departments and agencies have increased the awareness of top management to internal control issues. Several of the Inspectors General made recommendations for improving internal controls in their semiannual reports to the Congress. But audit and investigation cannot, by themselves, resolve these problems.

Much more needs to be done by program and policy managers to meet their responsibilities for assuring the adequacy of internal control systems. Recent Congressional testimony indicates that an astonishing total of 130,000 cases of alleged fraud and related illegal acts have been found in 21 major departments and agencies over a two-and-a-half-year period. Individual losses range from under $100 to over $1 million. The fact that most of this information comes from field offices, with little awareness of these problems in Washington, indicates weakness in policy level oversight.

Our own review of reports submitted under Bulletin 80-1, "Information on improvements in financial systems," shows that very few agencies have comprehensive systems of internal control. Moreover, the controls required by existing systems may not be properly observed. In light of the President's proposals for increased budget discipline, developing better controls to get the most out of Federal spending is essential.

Accordingly, we urge you to direct your personal attention to examining the adequacy of your internal control systems. We will help by developing uniform guidelines to insure that comprehensive, systematic internal controls are established and followed in every agency. We are working closely with the Comptroller General in this. Also, we are creating a task force to assist us on a part-time basis. Please provide the name of a candidate for the task force from your agency to John Lordan, Chief, Financial Management Branch, (395-6823) by May 15, 1980.

James T. McIntyre, Jr.

James T. McIntyre, Jr.
Director

SUMMARY ON WHISTLE BLOWER HOTLINES

OIG HOT-LINE

(As of September 15, 1979)

VII. (1) If your Office has established a hot-line to handle whistle-blower complaints please provide the following information:

	NASA	HUD		HEW		GSA	
1. Hot-line implemented	2/27/79	2/1/79		1/31/79		1/23/79	
2. Number of calls to date Number of letters to date Number of visits to date	N/A	67		539		750	
3. Breakout of calls by types of complaints	N/A	Housing CPD Miscellaneous HUD Funds, Not Involved Administration	19 6 6 3 33	General Management Personnel Problems Program Abuse Grants/Contracts Environmental Problems Administrative Law Judges Unauthorized Use of Government Vehicles Computer Programs Other Agencys' Referrals Legislative Problems Crank Calls Others	109 164 49 60 38 34 16 7 6 4 9 43	Non-Fraud Misuse of Government Vehicles Potential Fraud Matters	390 120 240
4. Breakout of calls by type of complainant	N/A	HUD Employees Public	45 22	Federal Employees	539	GSA/Former GSA Employees Public Other Federal Employees Other	90 465 173 22
5. Disposition of complaints received	N/A	OIG/Audit OIG/Investigation OIG/Fraud Control Program Officials	13 18 14 22	Closed, After Necessary Action Closed, Unfounded or Non-Substantive Under Review, Awaiting Final Determination HOLD, Awaiting Further Information Unassigned Other	209 107 140 49 34 12	IG Office (Potial Fraud Matters Transportation Unit of GSA/User Agency GSA Organizational Unit (Non-Fraud)	240 120 390

VII. (1) If your Office has established a hot-line to handle whistle-blower complaints please provide the following information:

	Commerce		Interior		DOT		VA	
1. Hot-line implemented	3/23/79		3/20/79		3/19/79		2/79	
2. Number of calls to date	145		142		114		276	
Number of letters to date			57		64		138	
Number of visits to date			1		11		46	
3. Breakout of calls by types of complaint	Fraud/Abuse	47	Personnel Problems	47	Possible Fraud	12	Potentially Criminal Employee Misconduct	
	Mismanagement	52	Contracting Fraud and Irregularities	33	Possible Mismanagement/Abuse	46	Management Problems	
	Personnel Problems	19	Waste of Funds	48	Conflict of Interest	16	Employee Grievances	
	Waste	23	Theft	3	Personnel Problems	1	Miscellaneous (Some were categorized twice)	
	Other	4	Time/Attendance Irregularities	15	Discrimination	4		
			Vehicle Misuse	19	Program Management Abuse or Problems	1		
			Misconduct	18	Grant/Contract Abuse/Problems	6		
			Other	6	Management Improvements	10		
					Other	34		
4. Breakout of calls by type of complainant	DOC Employees	134	Federal Employees	115	DOT Employees	141	Employees	4
	Public	11	Public	25	Public	48		
			Anonymous	76				
5. Disposition of complaints received	N/A		Referred to Involved Bureau for Report	72	(Some Joint Referrals)		OIG/Investigation	
			Limited Investigation	54	Investigative Review	63	OIG/Audit	
			Full-Scale Investigation	20	Audit Review	45	Referral to Appropriate Department/Staff	2
			Closed	20	Special Studies Review	1	Closed	1
			Under Review	50	Management Response	7		
					Informational Purposes	4		
					Referrals Outside DOT	3		
					Initial Response Pending	9		

OIG HOT-LINE

VII. (1) If your Office has established a hot-line to handle whistle-blower complaints please provide the following information:

		USDA	DOE	DOL	SBA
1.	Hot-line implemented	2/8/79	4/5/79	7/31/79	4/30/79
2.	Number of calls to date Number of letters to date Number of visits to date	171	47	59	36 19
3.	Breakout of calls by types of complaints	Conflicts of Interest 3 Fraud 13 Waste 16 Program Abuse 16 Mismanagement 13 Personnel Abuse 64 Reprisal 2 Misconduct 7 Threat 3 Safety Hazard 3 Administrative 5 Bribery 2	N/A	Criminal 16 Program 44 Personnel 1 EEO 1	Personnel Irregularities 1 Program Irregularities Office Irregularities 1 Alleged Fraud/Criminal Violation Threats to Employees Allegations regarding SBA Employees 1 Alleged Loan Packager Violations Allegations Involving Other Agencies 1
4.	Breakout of calls by type of complainant		N/A	Government Employee 14 Public 44 Anonymous 4	Employees 4 Public
5.	Disposition of complaints received	Preliminary Inquiry and Closed 34 Audit 17 Investigation 34 Office of Personnel 34 Agency Action/ Reply 52	N/A	Lack of Information 7 Investigation (Criminal) 10 Review 36 Personnel Office 1 EEO Office 1	Investigations Conducted or Pending 1 Referred to Personnel 1 Referred to OGC 1 Referred to Advocacy 4 Need More Information 6 Referred to Other IG Office or IG 10 Referred to Other Federal Agency 2 Being Worked with AUSA 1 No Basis for Complaint

REFERRALS FROM GAO's HOT-LINE

(As of September 15, 1979)

VII. (2) Please provide the following information concerning referrals from GAO's hot-line:

	NASA	HUD	HEW	GSA
1. Number of referrals to date	7	180	389	58
2. Breakout of calls by type of complaint	Fraud 1 Mismanagment 5 Waste 1	Administration 11 Housing 64 CPD 84 Miscellaneous 6 HUD Funds, Not Involved 15	Program Fraud 166 Waste/Mismanagement 68 Grants/Contracts 50 Criminal Fraud 27 Personnel 3 Administrative Law Judges 2 Other 28 Other Agencies 4 Unassigned 41	Mismanagement of Government Building 14 Violation of Government Contract 10 Theft/Mismanagement 9 Misuse of Vehicles 5 Government Overcharged 5 Government Standards Not Met 4 Other (Not Specified) 11
3. Disposition of complaints received	Closed - 5 (No Basis)	OIG/Audit 50 OIG/Investigation 38 OIG/Fraud Control 30 Program Officials 62	Closed 71 Pending 318	Returned to GAO 5 Completed 14 Non-Fraud/Handled by GSA Units 17 Potential Fraud/Handled by GSA 22

VII. (2) Please provide the following information concerning referrals from GAO's hot-line:

	Commerce		Interior	DOT		VA
1. Number of referrals to date	25		38	19		57
2. Breakout of calls by type of complaint	Fraud/Abuse	8	(Most Deal with Fraud or Irregularity in Handling Federal Funds)	Abuse/Mismanagement	5	N/A
	Mismanagement	7		Fraud	4	
	Personnel Matters	10		Favoritism	1	
				Conflict of Interest	2	
				Personnel Problems	4	
				Contract Abuse	2	
				Other	1	
3. Disposition of complaints received	Under Review	12	(All Incorporated in Whistle-blower System)	OIG/Audit	10	N/A
	Administrative Action	2		OIG/Investigation	5	
	Undergoing Audit	1		Returned to GAO	1	
	No Action Needed	4		Unassigned	1	
	On-going	6		Other	2	

REFERRALS FROM GAO's HOT-LINE

VII. (2) Please provide the following information concerning referrals from GAO's hot-line:

		USDA	DOC	DOI	SBA
1.	Number of referrals to date	45	23	No Referrals (A Couple of GAO Complaints Referred From HEW)	18
2.	Breakout of calls by type of complaint	Bribery 1 Conflict of Interest 2 Fraud 28 Waste 1 Program Abuse 8 Mismanagement 4 Reprisals 1	N/A		Alleged Bribery 3 Alleged Employee Misconduct 1 Loan Irregularities 3 HUD Matters 1
3.	Disposition of complaints received	OIG/Investigation 27 OIG/Audit 9 Agency Action 9	N/A		Referred to FBI 3 Investigated by SBA 1 No Substantive Irregularities Declared 3 Referred to HUD 1 Unassigned 10

VII. OIG Hotline

1 & 2. Please provide information concerning your office's hotline and matters referred from GAO's hotline.

Charts VII (1) and (2) detail the responding offices' statistics concerning hotline calls and GAO referrals. The information provided on these charts address the following issues:

Chart VII (1)--IG Hotlines

1. Date Hotline implemented.
2. Volume of complaints received.
3. Complaint categories.
4. Complainant volume.
5. Disposition of complaints.

Chart VII (2)--GAO Referrals

1. Volume of referrals received.
2. Complaint categories.
3. Disposition of complaints.

As a supplement to the Staffing Subcommittee's questionnaire, the Hotline Council solicited input from each IG's office concerning procedures, staffing and responsibilities. Replies received from HUD, EPA, SBA, USDA, GSA, DOT, DOE, Interior, NASA, Labor, HEW and VA are summarized below:

HUD--The HUD hotline is maintained by the Division of Fraud Control which is staffed with both auditors and investigators. Although the hotline was established primarily for HUD employees, calls from the public are accepted. The hotline staff has developed written procedures for handling complaints and GAO referrals. The staff performs limited screening to determine whether HUD funds or employees are involved, and then in consultation with the Office of Audit and Investigation, refers the matter to the appropriate organizational element within HUD. Recording equipment is used during non-business hours. HUD does not have a separate post office box or "800" number. Complainants are informed of the results of the review.

EPA--The EPA hotline is for employees only and is maintained in the Office of Investigation. Complaints, as well as GAO referrals, are screened by an investigator prior to referring the matter to audit or investigation. Procedures have not yet been formalized and "cases are handled on an ad hoc basis." Recording equipment is used during non-work hours and EPA uses a FTS phone number rather than an "800" number. The complainant is not informed of the complaint results.

SBA--The hotline was established for receiving employee complaints only. A separate post office box has been established for receiving written complaints. An "800" number is not used. The SBA hotline is maintained by the Office of Investigation and is staffed by investigators on a part-time basis. The complaints are not screened but referred to Audit or Investigation. Formal procedures have not yet been established. The Director, Office of Security and Investigation, decides whether the complaint has audit or investigative merit. There is no feedback to the complainant as to results.

USDA--USDA's hotline, maintained by the Office of Investigation, was established to receive complaints from employees and the public. Thus, an "800" number is used as well a separate post office address. In addition, all allegations sent to the Secretary, as well as Congressional inquiries relative to fraud, waste, and abuse, are handled by this unit. The hotline staff consists of two full-time investigators, a full-time personnel management specialist, and a full-time clerk. The staff is responsible for making some initial inquiry and then referring the matter to Audit or Investigation. Procedures have not yet been fully documented. During non-work hours, recording equipment is used. The audit or investigative merit of the complaint is determined by the Chief, Complaint Analysis and Investigation Staff. Complainants are informed of the complaint results.

GSA--The hotline unit, located in the Inspector General's immediate office, is staffed with administrative and clerical personnel. GSA uses an "800" number and separate post office box since the hotline was established for both GSA employees and the public. Procedures have been developed for

handling both HUD and GAO complaints as well as Congressional inquiries and allegations to the Administrator concerning fraud and abuse. The merit of the allegation is determined by the Complaints Officer. The complainant is not informed of the results of their allegations. Recording equipment is used during non-business hours.

DOT--DOT's hotline unit is located in the Office of Investigation and is available to the public and DOT employees. Additionally, allegations to the Secretary and Congressional inquiries are handled by this group. An "800" number and separate mailing address has been established. The hotline is staffed by full-time investigators who handle complaints and inquiries and refer these matters to Audit or Investigation for further review. The Director of Investigative Operations makes this decision. Formal procedures have been developed for handling complaints. Recording equipment is used exclusively and complainants may then be contacted for additional information. Complainants are not informed of the results of any review.

DOE--The hotline is maintained by the Office of Investigation and the unit is staffed with part-time investigators. DOE's hotline was established primarily for employees, however, calls from the public are accepted and handled in the same manner as employee complaints. An "800" number is not used, but a separate post office box has been established. Complaints are screened and sent to the Assistant Inspector General for Investigation for appropriate disposition. If a complainant requests the results of the review, it is DOE's policy to provide the information. Comprehensive operating procedures have not yet been developed.

Interior--Interior has established a complaint center which handles Secretarial and Congressional inquiries, as well as employee and public complaints received over their hotline or from GAO. Recording equipment is used at all times for hotline complaints. Full-time investigators staff the hotline and screen all complaints prior to referring them to audit or investigation. The audit or investigative merit of the complaint is determined by a Supervisory Special Agent with the concurrence of the Assistant Inspector General and Inspector General. Complainants are in-

formed of the review results. An "800" number is not used but a separate post office box has been established. Formal procedures have not been developed.

NASA--The hotline was established for employees only and is maintained in both the Offices of Audit and Investigation. There is no specific staff dedicated to the hotline nor have formal operating procedures been developed. The hotline is not listed as an "800" number nor has a separate mailing address been established. Recording equipment is not used and complainants are not informed of the results. Regional Directors of Audit and Investigation determine the merit and disposition of the complaint.

DOL--The hotline unit is comprised of part-time auditors and investigators who report to the Deputy Inspector General. An "800" number and separate mailing address have been established. The hotline was established for employees only and the staff only refers complaints to audit or investigation after review by the "Hotline Coordinator". Formal operating procedures have been developed. Complainants are not informed of review results. Recording equipment is used during non-work hours.

HEW--HEW's hotline was established for employees only. The unit is part of the Executive Assistant Inspector General's office. Full-time auditors and investigators staff the hotline and are responsible for screening the complaint prior to referring the matter to Audit or Investigation. Procedures have been developed and implemented and provide for a committee (Senior Auditor and Senior Investigator) to decide whether a complaint has merit and the disposition. Recording equipment is used during non-work hours and a complainant may find out the results of the review if they call the HEW hotline staff with their assigned control number. An "800" number is not used nor a separate post office box.

VA--VA's hotline is maintained in the OIG Risk Analysis Division and is available for employees only. A separate post office box is not maintained nor has an "800" number been established. Part-time auditors and a full-

time clerk are responsible for hotline complaints and GAO referrals. Matters are written up and referred to Audit or Investigation. Procedures are in draft form and provide for the Director, Risk Analysis Division, to make decisions concerning complaint merit and disposition. Complainants are informed of the results of their complaint if they call back and request it.